



**US\$500,000,000**

**3.650% Senior Notes due 2022**

**Banistmo S.A.**

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The US\$500,000,000 aggregate principal amount of 3.650% Notes offered hereby (the “Notes”) are being issued by Banistmo S.A. (“Banistmo,” the “Issuer” or the “Bank”). The Notes will be issued under an indenture (the “Indenture”) entered into with The Bank of New York Mellon (the “Trustee”). The proceeds obtained from the sale of the Notes will be used by Banistmo for general corporate purposes.

The Notes are senior unsecured obligations of Banistmo. The Notes will pay interest semi-annually in cash in arrears on March 19 and September 19 of each year, beginning on March 19, 2018. The Notes will mature on September 19, 2022.

The Notes will rank *pari passu*, without any preference among themselves, equally in right of payment to all of Banistmo’s existing and future senior unsecured indebtedness, except for liabilities that have priority under statutory or mandatory provisions of Panamanian laws and regulations, including banking laws, and will be effectively subordinated to all of Banistmo’s secured indebtedness with respect to the value of the assets securing such indebtedness and to all existing and future liabilities of Banistmo’s subsidiaries.

Prior to this offering there has been no market for the Notes. Application will be made for the listing of and quotation of the Notes on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. Approval in-principle for the listing and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of either us, this offering or the Notes. Upon listing on the SGX-ST, and for so long as the Notes are so listed and the rules of the SGX-ST so require, the Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000.

**Investing in the Notes involves risks that are described in the “Risk Factors” section beginning on page 17 of this offering memorandum.**

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**Offering Price: 99.778% of principal amount plus accrued interest, if any, from September 19, 2017.**

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The Notes have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any other jurisdiction. The Notes are being offered and sold only to qualified institutional buyers (“QIBs”) within the meaning of Rule 144A under the Securities Act and in offshore transactions as defined in Regulation S under the Securities Act. Prospective purchasers are hereby notified that the sellers of the Notes may be relying on the exemptions from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfer of the Notes, see “*Transfer Restrictions*.”

The Notes have not been registered in the Republic of Panama. The Notes (or beneficial interests therein) may not be offered or sold in the Republic of Panama or any other jurisdiction except in compliance with the securities laws thereof.

We expect that delivery will be made in book-entry form through the facilities of The Depository Trust Company (“DTC”) for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, and Clearstream Banking, *société anonyme*, on or about September 19, 2017.

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*Joint Book-Running Managers*

**J.P. Morgan**

**Morgan Stanley**

*Co-Manager*

**Valores Banistmo**

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The date of this offering memorandum is September 12, 2017.

**You should rely only on the information contained in this offering memorandum. We have not authorized any person to provide you with any information or represent anything about us or this offering that is not contained in this offering memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by us or the Initial Purchasers (as herein defined). We are not, and the Initial Purchasers are not, making an offer to sell these Notes in any jurisdiction where an offer or sale is not permitted.**

This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Notes in any jurisdiction in which it is unlawful to make such an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made under this offering memorandum will under any circumstances imply that there has been no change in our affairs or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.

**NONE OF THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE “SEC”), ANY STATE SECURITIES COMMISSION, NOR ANY OTHER REGULATORY AGENCY HAS APPROVED OR DISAPPROVED THE NOTES OR DETERMINED IF THIS OFFERING MEMORANDUM IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC (the “Initial Purchasers” and, individually, each an “Initial Purchaser”) make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation by the Initial Purchasers as to the past or future. The Initial Purchasers assume no responsibility for the accuracy or completeness of any such information.

This offering memorandum does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Notes.

This offering memorandum is intended solely for the purpose of soliciting indications of interest in the Notes from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions relating to the terms of the Notes that are contained in the Indenture being entered into in connection with the issuance of the Notes and other transaction documents described herein. This offering memorandum summarizes certain documents and other information, and we refer you to those sources for a more complete understanding of what we discuss in this offering memorandum. Certain of the market information in this offering memorandum has been obtained by us from publicly available sources deemed by us to be reliable. We accept responsibility only for correctly extracting and reproducing such information. Notwithstanding any investigation that the Initial Purchasers may have conducted with respect to the information contained in this offering memorandum, the Initial Purchasers accept no liability in relation to the information contained in this offering memorandum or its distribution or with regard to any other information supplied by us or on our behalf.

You must comply with all laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the Notes, and you must obtain any required consent, approval or permission for the purchase, offer or sale by you of the Notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make purchases, offers or sales, and neither we nor the Initial Purchasers have any responsibility for those transactions. For more information, see “*Transfer Restrictions*.”

By purchasing Notes, you acknowledge that: (1) you have been afforded an opportunity to request from us and to review, all additional information considered by you to be necessary to verify the accuracy of or to supplement the information contained in this offering memorandum; (2) you have not relied on us, the Initial Purchasers, Valores Banistmo or any person affiliated with us or the Initial Purchasers in connection with your investigation of the accuracy of the information or your investment decision; and (3) no person has been authorized to give any information or to make any representation concerning us or the Notes other than as contained in this offering memorandum. If given or made, any such other unauthorized information or representation about us or the Notes should not be relied upon.

The Notes may not be transferred or resold except as permitted under the Securities Act, the rules and regulations thereunder and applicable state securities laws.

You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See “*Risk Factors*” for a description of specified factors relating to an investment in the Notes. Neither we, the Initial Purchasers, Valores Banistmo nor any of our or their respective representatives are making any representation to you regarding the legality of an investment by you under appropriate legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes.

The Notes are not deposits with us and are not insured by the U.S. Federal Deposit Insurance Corporation or any other U.S. governmental agency or any Panamanian governmental agency.

#### **NOTICE TO PROSPECTIVE INVESTORS IN PANAMA**

**THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE SUPERINTENDENCY OF CAPITAL MARKETS OF THE REPUBLIC OF PANAMA (*SUPERINTENDENCIA DEL MERCADO DE VALORES DE PANAMA* (“SMV”)), AND, THEREFORE, (I) THE NOTES ARE NOT AUTHORIZED FOR PUBLIC OFFERING IN PANAMA AND MAY NOT BE OFFERED, PLACED, DISTRIBUTED, COMMERCIALIZED AND/OR NEGOTIATED PUBLICLY IN PANAMA, EXCEPT IN TRANSACTIONS EXEMPTED FROM REGISTRATION AS PRESCRIBED AND IN ACCORDANCE WITH PANAMANIAN SECURITIES LAWS AND REGULATIONS, (II) DOCUMENTS RELATING TO THE OFFERING OF THE NOTES, AS WELL AS INFORMATION CONTAINED THEREIN, MAY NOT BE DISTRIBUTED PUBLICLY IN PANAMA NOR BE USED IN CONNECTION WITH ANY PUBLIC OFFERING FOR SUBSCRIPTION OR SALE OF THE NOTES IN PANAMA, (III) THE SMV HAS NOT REVIEWED THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM, (IV) THE NOTES AND OFFERING THEREOF ARE NOT SUBJECT TO THE SUPERVISION OF THE SMV, AND (V) THE NOTES DO NOT BENEFIT FROM THE TAX INCENTIVES PROVIDED BY PANAMANIAN SECURITIES LAWS.**

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE EUROPEAN ECONOMIC AREA**

This offering memorandum has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for either the issuer or the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the issuer nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the issuer or the Initial Purchasers to publish a prospectus for such offer. The expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

This offering memorandum may only be communicated or caused to be communicated to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 (“FSMA”) does not apply. Accordingly, this offering memorandum is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at (i) persons who are outside the United Kingdom; (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”), and/or (iii) persons who are high net worth companies or persons to whom it may otherwise be lawfully communicated falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This offering memorandum must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In

the United Kingdom, any investment or investment activity to which this offering memorandum relates is only available to, and will be engaged in with, relevant persons.

**IN CONNECTION WITH THIS OFFERING, J.P. MORGAN SECURITIES LLC AND MORGAN STANLEY & CO. LLC AND THEIR AFFILIATES MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD OF TIME AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION ON J.P. MORGAN SECURITIES LLC AND MORGAN STANLEY & CO. LLC TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.**

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## ENFORCEMENT OF JUDGMENTS

We are a corporation (*sociedad anónima*) organized and existing under the laws of Panama. All of our directors and officers and certain other persons named in this offering memorandum reside outside the United States. The majority of our assets are located in Panama, and all or a significant portion of the assets of our directors and officers and certain other persons named in this offering memorandum are located in Panama or in other countries. As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or against us judgments obtained in U.S. courts or in other jurisdictions outside Panama.

In the terms and conditions of the Notes, we will (1) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, the City of New York, will have jurisdiction to hear and determine any suit, action or proceeding and to settle any disputes that may arise out of or in connection with the Notes, and, for such purposes, we will submit to the jurisdiction of such courts, and (2) name an agent for service of process in the Borough of Manhattan, the City of New York. See “*Description of the Notes.*”

There is uncertainty as to the enforceability in Panama, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws or any state thereof. See “*Risk Factors—Risks Related to the Notes—The ability of investors to enforce civil liabilities under U.S. securities laws may be limited.*” Notwithstanding this fact, we understand that, subject to specific requirements described below, a final conclusive judgment for payment of a determined sum of money rendered by any court in the United States in respect of the Notes would be recognized in Panamanian courts (to the extent that Panamanian courts may have jurisdiction), and such courts would enforce such judgment without any retrial or reexamination of the merits of the original action subject to the issuance of a *writ of exequator* by the Supreme Court of Justice (*Corte Suprema de Justicia*) of Panama. Currently, such recognition will be issued, *provided that*:

- such foreign court grants reciprocity to the enforcement of judgments of courts of Panama;
- the party against whom the judgment was rendered, or its agent, was personally served (not by mail) in such action within such foreign jurisdiction;
- the judgment arises out of a personal action against the defendant;
- the obligation in respect of which the judgment was rendered is lawful in Panama and does not contradict the public policy of Panama;
- the foreign judgment, in accordance with the laws of the country where it was rendered, is final and is not subject to appeal;
- the judgment is properly authenticated by diplomatic or consular officers of Panama or pursuant to the 1961 Hague Convention Abolishing the Requirement of Legalization of Foreign Public Documents; and
- a copy of the final judgment is translated into Spanish by a translator licensed in Panama.

Notwithstanding the foregoing, no assurance can be given that such ratification would be obtained, that the process described above could be conducted in a timely manner or that a Panamanian court would enforce a monetary judgment for violation of U.S. securities laws.

## AVAILABLE INFORMATION

We are not subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). To preserve the exemption for resales and transfers under Rule 144A under the Securities Act, we have agreed that we will promptly provide any holder or any prospective purchaser of the Notes who is designated by that holder and is a “qualified institutional buyer,” as defined under Rule 144A, upon the request of such holder or prospective purchaser, with information meeting the requirements of Rule 144A(d)(4), so long as such Notes are not freely transferable under the Securities Act by “persons” who are not “affiliates” under the Securities Act. Any such request may be made to us in writing at our main offices as set forth on the back cover of this offering memorandum.

The contents of our website, or any information accessible through it, are not incorporated by reference and shall not be considered part of this offering memorandum. Be advised that the information on our website might not be up-to-date or current and can be subject to change from time to time as we consider appropriate. The information on our website is for the information of our customers and the general public and is not specifically intended or directed to any investor in the Notes.

Application will be made for the listing and quotation of the Notes on the SGX-ST. We will be required to comply with any undertakings given by us from time to time to the SGX-ST in connection with the Notes, and to furnish to it all such information as the rules of the SGX-ST may require in connection with the listing of the Notes, so long as the Notes are listed on the SGX-ST and the rules thereof so require.

## FORWARD-LOOKING STATEMENTS

This offering memorandum contains “forward-looking statements,” as defined in Section 27A of the Securities Act and Section 21E of the Exchange Act, relating to our business. Examples of such forward-looking statements include, but are not limited to, the following: (1) statements regarding our future results of operations and financial condition, (2) statements of plans, objectives or goals, including those related to our operations, and (3) statements of assumptions underlying such statements. Words such as “believe,” “anticipate,” “should,” “estimate,” “forecast,” “expect,” “may,” “intend,” “is expected to,” “future,” “estimate,” “should,” “would,” “shall,” “seeks” and “plan” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements reflect the best judgment of our management but involve inherent risks and uncertainties, both general and specific, and there are risks that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Although we believe that the estimates reflected in the forward-looking statements are reasonable, we caution investors that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements. These factors include the following:

- our ability to implement and continue to improve our credit risk management system;
- credit and other risks of lending, such as increases in defaults by borrowers;
- the concentration of default risks in our loan portfolio;
- market and interest rate fluctuations, and our ability to manage interest rate risk;
- deposit attrition and liquidity risks;
- fraud, a failure in our information technology systems, our banking platform or a breach of our security systems;
- our capacity to retain key personnel and ability to hire new personnel;
- our ability to successfully implement any aspect of our business strategy, including our relationships and agreements with foreign institutions and domestic customers, changing commercial relationships and agreements with commercial partners in Panama;
- the inability to obtain the capital that we need for further expansion of our business;
- acquisitions, including the ability to integrate acquired businesses successfully, and divestitures, including the ability to sell non-core assets;
- the success of new products we introduce;
- regulatory characteristics and challenges of the Panamanian banking sector;
- implementation of Basel III, the effect of changes in accounting principles, new legislation, intervention by regulatory authorities, government directives or monetary or fiscal policy in Panama;
- operational and infrastructure risks;
- severe weather, natural disasters and adverse climate changes;
- dependence on information technology systems;

- changes in overall economic conditions in Panama, including interest rates and the rate of inflation, and changes in economic, political and business conditions in Panama and in major international markets;
- inflation;
- competition in the banking, financial services and related industries in Panama;
- systemic risk in the banking sector arising from the lack of a lender of last resort;
- the effect of events such as the publication of information on financial records and offshore structures and holdings known as the “Panama Papers”;
- the effect of changes in liquidity, capital and reserve requirements and other regulatory requirements and penalties;
- regulatory inspections, examinations, inquiries or audits in Panama by local or international regulatory bodies or agencies;
- sanctions, fines and other penalties resulting from regulatory inspections, examinations, inquiries and audits by local or international regulatory bodies or agencies;
- a failure to comply with anti-money laundering and anti-terrorist financing laws;
- changes in our management;
- effects on us of any issues affecting our parent company, Bancolombia;
- effects of any issues affecting our customers;
- risks relating directly to the Notes, such as their credit rating, the trading market for the Notes, developments in other countries, disclosure requirements, the tax treatment of Notes and payments on them, the ability of holders of Notes to enforce their rights; and
- other risk factors as set forth herein in “Risk Factors.”

Should one or more of these factors or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated, expected or intended, as described in this offering memorandum. Forward-looking statements speak only as of the date they are made and none of Banistmo, the Trustee nor the Initial Purchasers undertakes any obligation to release publicly any revisions or to update such forward-looking statements after completion of this offering in light of new information or future developments or to reflect the occurrence of unanticipated events even if new information, future events or other circumstances have made them incorrect or misleading. Moreover, we cannot assure you that any of the historical information, data, trends or practices mentioned and described in this offering memorandum are indicative of future results or events.

We urge you to read the rest of the sections of this offering memorandum, including those titled “Risk Factors,” “Management’s Discussion and Analysis of Our Financial Condition and Results of Operations,” “Business” and “Supervision and Regulation” for a more complete discussion of the factors that could affect our future performance and the industries in which we operate. Additionally, new risks and uncertainties can emerge from time to time, and it is not possible for us to predict all future risks and uncertainties, nor can we assess their potential impact. Accordingly, you should not place undue reliance on forward-looking statements as a prediction of actual results.

Our independent auditors have not examined or compiled the forward-looking statements and, accordingly, do not provide any assurance with respect to such statements.

## PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

### General

All references to “we,” “us,” “our,” the “Bank,” the “Issuer” and “Banistmo” in this offering memorandum are to Banistmo S.A., a corporation (*sociedad anónima*) organized under the laws of Panama, and, unless otherwise indicated or the context otherwise requires, its consolidated subsidiaries.

Banistmo’s operating subsidiaries are Banistmo Investment Corporation S.A. (“Banistmo Investment Corporation”), Financomer S.A. (“Financomer”), Valores Banistmo S.A. (“Valores Banistmo”) and Leasing Banistmo S.A. (“Leasing Banistmo”).

### Financial Information

This offering memorandum includes our audited consolidated financial statements and related Notes as of and for each of the years ended December 31, 2016, 2015 and 2014 (collectively, our “Audited Financial Statements”) and our interim unaudited consolidated financial statements and related Notes as of June 30, 2017 and for the six-month periods ended June 30, 2017 and 2016 (collectively, our “Unaudited Financial Statements” and, together with our Audited Financial Statements, our “Financial Statements”).

Our Audited Financial Statements are prepared in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the International Accounting Standards Board (“IASB”) and our Unaudited Financial Statements are prepared in accordance with IAS 34.

Pursuant to the regulations issued by the Superintendency of Banks of Panama (*Superintendencia de Bancos de Panamá*) (the “Superintendency of Banks”), all Panamanian banks are required to create and maintain (i) a specific loan-loss reserve based on the level of risk of each facility that represents 20% of the net balance of loans classified as Special Mention, 50% of the net balance of loans classified as Subnormal, 80% of the net balance of loans classified as Doubtful and 100% of the net balance of loans classified as Unrecoverable (“Specific Reserve”) and (ii) a dynamic reserve in order to cover future unexpected losses on the loan portfolio classified as Normal (“Dynamic Reserve”). The Dynamic Reserve equals (i) the sum of the result of multiplying the outstanding amount of the Risk-Weighted Assets classified as Normal by the alpha factor of 1.50% *plus* the result of multiplying the positive variation between quarters of the Risk-Weighted Assets classified as Normal by the beta factor of 5%; if the result is negative, the number added is zero; *minus* (ii) the quarterly variation of the outstanding amount of the Specific Reserve. The Dynamic Reserve must be between 1.25% and 2.50% of the Risk-Weighted Assets corresponding to credit facilities classified as “Normal Risk” and cannot decrease from the amount calculated for the previous quarter, except for cases when such decrease results from a conversion from Dynamic Reserve to Specific Reserves. The increases or decreases of the Specific Reserve and the Dynamic Reserve are allocated to, or from, retained earnings, and do not affect recorded net profit. Such reserves cannot be distributed to shareholders. In addition, all Panamanian banks and each of their Panamanian subsidiaries are required to create a capital reserve of equity from the date a real estate property is acquired and registered in the public registry (*Registro Público de Panamá*) by allocating retained earnings based on the value of the asset in the following manner: 10% for the first year, 20% for the second year, 35% for the third year, 15% for the fourth year and 10% for the fifth year.

### Currencies and Exchange Rates

Our financial statements are expressed in Balboas, the official monetary unit of Panama. The Balboa is freely exchangeable for the U.S. dollar on a one-to-one basis. Balboas only circulate in coins, mostly with values of B/1.00 or less. There are no circulating Balboa bills. Panama does not issue paper currency. Pursuant to Article 1171 of the *Código Fiscal de la República de Panamá* (the “Panamanian Tax Code”), as supplemented by Article 2 of Cabinet Decree No. 136, dated as of August 17, 1972, Panama uses the U.S. dollar as its legal tender at parity with the U.S. dollar. For ease of reference, all amounts discussed herein are expressed in U.S. dollars (US\$), the lawful currency of the United States of America.

Unless otherwise specified in this offering memorandum, all references to “U.S. dollars,” “\$” or “US\$” are to United States dollars.

### **Terms Relating to Our Loan Portfolio**

As used in this offering memorandum, the following terms relating to our loan portfolio and other credit assets have the meanings set forth below, unless otherwise indicated.

“Total performing loans” and “total performing loan portfolio” refer to the total principal amount of loans outstanding as of the date presented including (i) interest receivable and (ii) unearned and discounted interest and commissions (“net fees”). These terms as used in this offering memorandum do not include “total non-performing loans,” as defined below.

The terms “total non-performing loans” and “total non-performing loan portfolio” refer to the total outstanding amount of non-performing loans, including past-due principal, past-due interest, and net fees. The terms “NPL” or “non-performing loan” refers to a loan that is past-due on interest or principal, if amortizing, for more than 90 days or with respect to which we decided to resort to legal action for collection. The term “NPL Ratio” refers to the ratio of our total NPLs to our total loans. For a description of our policies regarding the classification of loans as non-performing, see “*Selected Statistical Information—Non-Performing Loan Portfolio.*”

The terms “total loans” or “gross loans” and “total loan portfolio” or “gross loan portfolio” include total performing loans plus total non-performing loans, each as defined above but excluding net fees and interest receivable. The terms “net loans” and “net loan portfolio” refer to total loans plus interest receivable less (i) net fees and (ii) allowance for loan-losses.

### **Terms Relating to Our Capital Adequacy**

As used in this offering memorandum, the following terms relating to our capital adequacy have the meanings set forth below, unless otherwise indicated:

- “Additional Tier 1 Capital” means instruments issued by a bank that comply with the criteria to be classified as ordinary primary capital and that are not classified as ordinary primary capital, issuance premiums from financial instruments considered ordinary primary capital, financial instruments that are held by a third party and are issued by consolidated affiliates of the bank, and any other financial instrument resulting from capital adjustments of ordinary primary capital.
- “Adjusted Capital” or “Regulatory Capital” refers to the capital requirements set forth by the Banking Law, which is the sum of Primary Capital, Secondary Capital and the Dynamic Reserve therein established.
- “Adjusted Capital to Risk-Weighted Assets Ratio” refers to the ratio of the Adjusted Capital to Risk-Weighted Assets. Under the Banking Law, the amount of Adjusted Capital required for risk exposure may not be less than 8% of the Risk-Weighted Assets.
- “Common Equity Tier 1 Capital” means paid-in capital in shares, surplus capital, declared reserves, retained earnings, minority interests in equity accounts of consolidated subsidiaries, other items of net total earnings and any other reserves authorized by the Superintendent of Bank.
- “Minimum Paid-In Capital,” as defined in the Banking Law, is the minimum amount of paid-in or assigned capital, net of any losses, required to solicit and maintain a banking license. The Minimum Paid-In Capital is US\$10 million for a bank operating with a general banking license (“General License Bank”) and US\$3 million for an international license issued by the Superintendent of Banks. Banks may not, at any time, allow their capital to fall below the minimum amount required.
- “Primary Capital” is the sum of Common Equity Tier 1 Capital and Additional Tier 1 Capital.

- “Risk-Weighted Assets” refers to, as of any relevant determination date, the aggregate of on-balance sheet assets, off-balance sheet assets and exposure to derivatives, net of depreciation, reserves and allowances for loan-losses, weighted for credit risk, net of depreciation, reserves and provisions, in accordance with the Banking Law. Risk weights are determined by the Superintendency of Banks.
- “Secondary Capital” includes (i) financial instruments that meet the criteria for classification as secondary capital set forth in Regulation 1-2015; (ii) subscription premiums paid on financial instruments that are classified as secondary capital; (iii) financial instruments issued by consolidated affiliates of the bank to third parties; and (iv) reserves for future losses (excluding provisions assigned to the deterioration of assets valued on an individual or collective basis).

## Other Definitions

The following definitions are used in this offering memorandum:

- “Bancolombia” means Bancolombia S.A.;
- “Bancolombia Panamá” means Bancolombia (Panamá) S.A.;
- “Banco Agrícola” means Banco Agrícola S.A.;
- “Banco Agromercantil” or “BAM” means Banco Agromercantil S.A.;
- “Bank” means Banistmo;
- “Banking Law” means Decree Law No. 9 of February 26, 1998, as amended and schematically ordered as sole text by the Executive Decree No. 52 of April 30, 2008, and all regulations and accords issued thereunder;
- “Central America” means Panama, Honduras, Guatemala, Nicaragua, Costa Rica, El Salvador and Belize;
- “Coverage Ratio” means the ratio of our total allowance for loan-losses to our total NPLs;
- “Dynamic Reserve” means a statutory reserve covering future unexpected losses on the loan portfolio classified as Normal, calculated on the basis of the aggregate value of loans categorized as Normal risk and adjusted quarterly based on (A) the increase (but not adjusted for any decrease) of such total aggregate value, (B) quarterly variations in the specific loan-loss reserves and (C) the variation of the quarterly outstanding amount of the Specific Reserve;
- “GDP” refers to real gross domestic product, except for GDP per capita and penetration ratios of loan products;
- “Grupo Bancolombia” or “Group” means Bancolombia and its subsidiaries;
- “National Banking System” means the *Sistema Bancario Nacional*, which comprises the 48 financial institutions (including two state-owned institutions as of the date of this offering memorandum) in the Panamanian banking market that possess a general banking license issued by the Superintendency of Banks;
- “Regulatory Liquidity Ratio” means qualifying liquid assets divided by the sum of (i) demand deposits, (ii) savings accounts and (iii) time deposits with a maturity equal to, or less than, 186 days prior to the date of the calculation of the regulatory liquidity ratio and if such time deposit guarantees loans granted by the Bank, then not including the portion of such time deposit which is allocated to guarantee such loan;

- “SME” means Small and Medium Enterprises (*Pequeñas y Medianas Empresas*);
- “Total funding” means total customers’ deposits plus interbank time deposits plus borrowings;
- “Total interest-bearing liabilities” means liabilities that, under the contractual terms agreed between Banistmo and counterparties in relation with these liabilities, generate financial expenses for Banistmo; and
- “Total interest-earning assets” means assets that, under the contractual terms agreed between Banistmo and counterparties in relation with these assets, generate financial income for Banistmo.

### **Average Balance Calculation**

In certain sections of this offering memorandum we make reference to average balances. Annual average balance information has been calculated as the sum of the end-of-month balance for each month of the year divided by 12 (or by 6, in the case of average balances for a six-month period). Nominal average interest rates have been calculated by dividing interest earned on assets or paid on liabilities by the corresponding average balances on such assets or liabilities. In addition, loan amounts are presented before deduction of the allowance for loan-losses.

### **Rounding Adjustments**

We have made rounding adjustments to certain numbers included in this offering memorandum. As a result, numerical figures may not be exact, and numerical figures presented as totals may not always be the arithmetic aggregations of their components, as presented. Percentage figures included in this offering memorandum have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this offering memorandum may vary from those obtained by performing the same calculations using the figures in our financial statements. Certain other amounts that appear in this offering memorandum may not sum due to rounding.

### **Information Relating to the Republic of Panama and the National Banking System**

Certain economic and financial data in this offering memorandum are derived from information previously published by the Superintendency of Banks and other governmental entities of Panama. These data are subject to updates and change in subsequent publications. Some information relating to Panama in this offering memorandum is preliminary and in the process of being updated.

Information sourced from the Superintendency of Banks is as of December 31, 2016.

### **Market Share and Ranking Information**

This offering memorandum contains statements about our competitive position and market share in, and the market size of, the Panamanian banking industry and market for financial services. The market share percentages included in this offering memorandum for us and our competitors express our and their respective shares of the National Banking System market. We have made these statements on the basis of statistics and other information from third-party sources that we believe are reliable, principally statistics reported by the Superintendency of Banks. These statistics are compiled on the basis of publicly available information shared by each bank in the financial system or published by the Superintendency of Banks, respectively, and, in the case of information reported as of June 30, 2017, June 30, 2016, December 31, 2016, December 31, 2015 and December 31, 2014, includes information pertaining to Banistmo S.A. only, on a stand-alone basis and excluding its subsidiaries and the other entities of Grupo Bancolombia, unless otherwise noted. Although we have no reason to believe that any of the above-described information or reports is inaccurate in any material respect, neither we nor the Initial Purchasers have independently verified the data regarding our competitive position, market share, market size or market growth data or the information regarding our competitors contained in such reports and, therefore, neither we nor the Initial Purchasers can assure you that such information is accurate and complete.

## SUMMARY

*The following summary is qualified in its entirety by the detailed information appearing elsewhere in this offering memorandum. This summary highlights selected information from this offering memorandum and may not contain all the information that is important to you. For a more complete understanding of us and the offering made hereby, you should read the entire offering memorandum, including the Risk Factors and the Financial Statements appearing elsewhere in this offering memorandum.*

### **The Bank**

We are a full-service commercial bank that offers a wide range of financial services and products, serving over 575,000 customers through our two core business lines: Retail & SMEs and Corporate & Government banking. We are an organization inspired by our Panamanian identity and seek to contribute to the development of the communities in which we are present. Since October 2013, we have been part of Grupo Bancolombia, as a wholly-owned subsidiary of Bancolombia. As of June 30, 2017 we represented 13.9% of Grupo Bancolombia in terms of assets and 8.7% in terms of total interest income, and we were the biggest non-Colombian franchise of the group. Our affiliation with Grupo Bancolombia generates a number of synergistic benefits and savings in areas like technology, security, anti-money laundering compliance, new procurement development, management expertise and best practices, and credit scoring, among others.

We have an extensive nationwide network, with a presence in nine of Panama's ten provinces. Our network of 510 service points includes 327 ATMs, 132 non-banking agents and 51 branch offices, in addition to digital channels such as an online platform and a mobile app. We have a widely recognized brand and take part in various partnerships and sponsorships, such as our sponsorship of the Panamanian National Soccer Team, to further increase our visibility.

As of December 31, 2016, we were Panama's second-largest privately-owned financial institution, holding 10.8% of total outstanding loans and 12.0% of total customers' deposits, and we had 12.9% market share of corporate loans, 14.4% market share of consumer loans and 16.7% market share of residential mortgage loans. As of December 31, 2016, 2015 and 2014, respectively, our total assets amounted to US\$9,174.1 million, US\$8,920.9 million and US\$8,312.2 million, our gross loans amounted to US\$7,326.7 million, US\$6,866.5 million and US\$6,310.0 million, and our total deposits including interbank time deposits amounted to US\$6,720.5 million, US\$6,604.2 million and US\$6,103.5 million, with consolidated equity of US\$1,007.7 million, US\$947.8 million and US\$877.8 million. Our consolidated net profit totaled US\$45.8 million for the year ended December 31, 2016, US\$94.7 million for the year ended December 31, 2015 and US\$76.8 million for the year ended December 31, 2014 and our consolidated net profit from continuing operations totaled US\$45.8 million for the year ended December 31, 2016, US\$70.0 million for the year ended December 31, 2015 and US\$61.3 million for the year ended December 31, 2014. As of June 30, 2017, our total assets amounted to US\$9,354.9 million, gross loans amounted to US\$7,604.5 million, and total deposits including interbank time deposits amounted to US\$6,883.3 million, and our consolidated equity was US\$1,048.6 million. Our consolidated net profit totaled US\$41.6 million for the six months ended June 30, 2017.

We have had sustained growth in loans and total assets in recent years, with annual growth rates of 2.8%, 7.3% and 3.1% in terms of assets and 5.8%, 8.8% and 11.6% in terms of net loan portfolio in 2016, 2015 and 2014, respectively. Our annual growth rates in terms of assets and in terms of net loan portfolio for the six months ended on June 30, 2017 were 4.4% and 5.5%, respectively, compared to June 30, 2016. Our annual growth rates in terms of assets and in terms of net loan portfolio for the year ended December 31, 2016 were 2.8% and 5.8% respectively, and for the year end December 31, 2015 were 7.3% and 8.8%, respectively. Despite the increase in size of our loan portfolio, and the increase in our NPL Ratio in 2016, our loan portfolio continues to maintain strong credit quality, with non-performing loan ratios (measured at 90 days) of 2.1%, 1.8% and 1.7% as of December 31, 2016, 2015 and 2014, respectively.

We are well-capitalized and our capitalization levels are aligned with the average capitalization levels of the National Banking System. Our equity consists of paid-in capital, capital reserves, reserves for revaluation of financial instruments and retained earnings. Under the Banking Law, as of June 30, 2017, we are required to maintain an Adjusted Capital of not less than of US\$514.3 million, or 8% of our total risk weighted assets of

US\$6,429.1 million. On June 30, 2017 we had total capital of US\$934.7 million, or 81.7% above the minimum total capital required. Our consolidated capital adequacy index as of December 31, 2016, 2015 and 2014 was 14.4%, 14.2% and 13.6%, respectively, compared to average capital adequacy levels of 15.1%, 14.9% and 14.7% on the same dates for the National Banking System.

For more information on the Bank, see “*Business.*” For income statement and balance sheet information, see “*Summary Historical Financial Information.*”

## **Lines of Business**

We are a full-service commercial bank, serving over 575,000 customers through our core business lines: Retail & SMEs and Corporate & Government banking. Among the products that we offer are deposit products (including checking and savings accounts and time deposits), investment products, credit products (including loans, leases and debit and credit cards), international products (including currency exchanges, bank transfers in foreign currencies, other services in foreign currencies and remittance services) and other specialized financial products and services. Our subsidiary Valores Banistmo specializes in capital markets and investment banking solutions for our clients. In addition, we offer our customers certain non-financial services, such as access to insurance products and other complementary services.

As of June 30, 2017, our Corporate & Government banking loan portfolio represented 45.5% of our total loan portfolio and Corporate & Government banking deposits represented 30.3% of total deposits. Also as of June 30, 2017, our Retail & SMEs loan portfolio represented 54.5% of our total loan portfolio, and Retail & SMEs deposits represented 69.7% of total deposits.

*Corporate & Government Banking.* Our Corporate & Government banking business line is responsible for addressing local and international corporate entities, as well as Panamanian government and public sector institutions. Our Corporate & Government loan portfolio is subdivided into the following categories, corresponding to the economic activities of our customers: Commercial (20.7%), Construction (38.5%), Government (1.7%), Industrial (16.1%), Offshore (10.5%), and Colon Free Zone (12.6%).

*Retail & SMEs.* Our Retail & SMEs business line focuses on providing a full range of banking products and services to our Retail and Small and Medium Enterprise (“SME”) customers. Our Retail & SMEs loan portfolio is divided into the following categories, corresponding to types of products offered and profiles of our customers: SME (12.5%), Personal Loans (15.9%), Finacomer (3.0%), Vehicles (3.5%), Credit Cards (5.9%), Residential Mortgages (53.3%) and Other Products (6.0%).

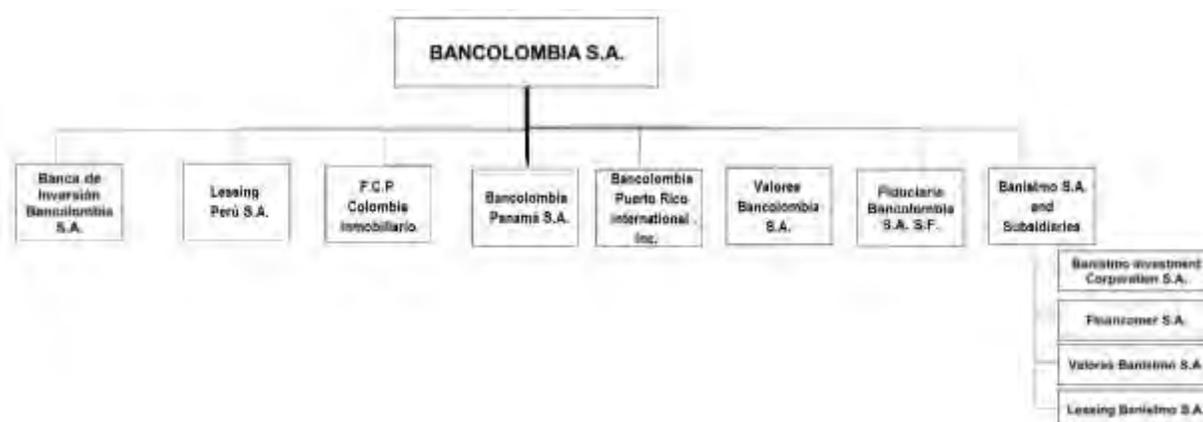
For a discussion of the operating segments within the Corporate & Government and Retail & SMEs business lines, please see “*Business—Lines of Business.*”

## **Our History**

Banco del Istmo S.A., our predecessor, began its operations in 1984. Banco del Istmo S.A. grew in subsequent decades through various mergers and acquisitions, including the acquisition of Bancolat in 2002. Banco del Istmo S.A. first changed its name to Primer Banco del Istmo S.A. and later to Banistmo in 2000. In 2006, Banistmo was acquired by HSBC, which had been operating in Panama since 1972. HSBC was the controlling shareholder of Banistmo until our acquisition by Bancolombia in October 2013. As of the date of this Offering Memorandum, Bancolombia remains our sole shareholder.

## Our Stockholders and Group Affiliates

The following chart presents our corporate structure within Grupo Bancolombia and shows our operating subsidiaries, as of December 31, 2016:



For more information on our subsidiaries please see “*Business – Our Corporate Structure.*”

## Our Competitive Strengths

We believe we benefit from the following competitive strengths:

### *A leading banking institution in Panama*

Banistmo is a widely recognized franchise in Panama, with a strong brand and solid reputation in the Panamanian banking system, a wide variety of financial products and services and diversified and stable sources of funding. As a result, we believe we are well-positioned to remain competitive as one of the leading banks in Panama.

We have over 575,000 customers and, as of December 31, 2016, we were Panama’s second-largest privately-owned financial institution, holding a market share of 10.8% of total outstanding loans, 12.0% of total customers’ deposits, 9.1% of total assets, 3.0% of net profit, 12.9% of corporate loans, 14.4% of consumer loans and 16.7% of residential mortgage loans, in each case as compared to other privately-owned financial institutions in Panama.

As of June 30, 2017, our total assets amounted to US\$9,354.9 million, gross loans less net fees plus interest receivable amounted to US\$7,531.5 million and total deposits including interbank time deposits amounted to US\$6,883.3 million, with consolidated equity of US\$1,048.6 million. Our consolidated profit totaled US\$41.6 million for the six months ended June 30, 2017.

Banistmo has credit ratings of BBB- by S&P and BBB by Fitch.

### *Unique sponsorship from Grupo Bancolombia, supporting our business strategy and future growth*

Since October 2013, Banistmo has been part of Grupo Bancolombia, as a wholly-owned subsidiary of Bancolombia S.A. Our close relationship with Bancolombia has allowed us to share best practices with respect to a wide range of policies, procedures and operations. We have also leveraged Bancolombia’s expertise to bring new products to market, which we believe provides us with a competitive advantage. With critical support from Bancolombia, we have undertaken several measures designed to grow our income, reduce our costs and improve our risk management and compliance processes:

### *Income Growth Measures.*

- We have introduced or expanded a number of new products, including:
  - “bancassurance” products underwritten by a subsidiary of Grupo Sura, a major shareholder of Bancolombia;
  - leasing products, a business we have vastly expanded with the support of Grupo Bancolombia’s expertise as a market leader in leasing in Colombia;
  - investment products offered through our subsidiary Valores Banistmo, a subsidiary that has been merged with the brokerage business that Bancolombia operated in Panama before acquiring us, giving us access to Bancolombia’s existing customer base;
  - “App Banistmo,” our Banistmo smartphone app, which we were able to roll-out quickly because we used the same vendor that Bancolombia used to develop its own app;
  - our digital wallet, “Nequi,” which uses the same underlying software as Bancolombia’s comparable product, and a product which we were the first bank in Panama to introduce.
- We have repositioned the marketing efforts for our credit card business to optimize revenues from this product line, based on learning and experience provided by Bancolombia including by entering into partnerships with airlines and other vendors to enhance our loyalty programs associated with the credit cards we issue. In addition, we have recently added new features to our loyalty program to allow its members to redeem points simply by presenting their credit cards when shopping at participating merchants.

### *Cost Control and Efficiency Measures*

- The design and construction of our virtual branch, “Sucursal Virtual Personas,” is based closely on a comparable tool offered by Bancolombia.
- We, and other members of Grupo Bancolombia, have renegotiated important procurement contracts at a regional level, using the larger scale of Grupo Bancolombia to drive cost savings.
- Our information technology operations have become increasingly integrated with those of Bancolombia since our transition services contract with HSBC expired in the second quarter of 2015. Bancolombia hosts our servers in Colombia, and our disaster recovery operations are co-located with those of Bancolombia. Our association with Bancolombia also gives us access to leading vendors of IT products and services, in particular cybersecurity services, on terms that we might not have been able to achieve on our own.
- The development of non-banking agents which increases efficiency, reduces the costs of serving our clients and is a concept that we have leveraged from Bancolombia, which has implemented these strategies for several years.

### *Risk Management and Compliance*

- We have modified our credit approval processes to align with those of Bancolombia. For proposed large corporate loans, we have implemented a regional credit approval process that involves senior executives from Bancolombia in the approval process for such large loans.
- We have also aligned our risk management policies for liquidity, interest rate risk and capital risk to conform with those of Bancolombia.

- We have integrated “Monitor Plus,” an anti-money laundering transaction monitoring system also used by some of Bancolombia’s other affiliates in Central America (BAM and Banco Agrícola), into our anti-money laundering compliance framework.
- Our Anti-Money Laundering Committee, which reviews our anti-money laundering compliance efforts, includes members of our Board of Directors who are also senior executives at Bancolombia and meets bimonthly.
- Our close relationship with Grupo Bancolombia allows us to benefit from their supervision, guidance and experience. A majority of the members of our Board of Directors are executives of Bancolombia.

For more information on our risk management policies, see “*Risk Management.*”

As a result of our relationship with Grupo Bancolombia, we have adopted a strategic segmentation of our business through which we are able to explore synergies between our Corporate & Government and Retail & SMEs business units. We expect to continue to grow our business in a sustainable manner with the support of Grupo Bancolombia by increasing the amount of transactions in which our Corporate & Government banking division participates as a result of its affiliation with Grupo Bancolombia and the resulting access to more markets and bigger clients. We also intend to continue to expand our presence in the Retail & SMEs market and to develop new products to meet the needs of our customers, capitalizing on opportunities for cross-selling products and services and leveraging Bancolombia’s broad network of branches and services in Colombia, in Guatemala (through BAM) and El Salvador (through Banco Agrícola).

#### ***Panama’s growing economy and healthy financial system***

Panama is an open and competitive economy (ranked the second most competitive in Latin America by the World Economic Forum in its Global Competitiveness 2016-2017 report), based on international commerce supported by the Panama Canal, the Colon Free Zone (which includes international trade-related services for electronics, pharmaceuticals, liquor, textile, jewelry and toys, among others) and the seaports. Panama has one of the highest GDP growth rates in Latin America, amounting to 6.1% in 2014, 5.8% in 2015 and 4.9% in 2016 and 6.2% for the period from January to March 2017. Panama’s unemployment rate remained steady at 4.8%, 5.1% and 5.5% in 2014, 2015 and 2016, respectively, and inflation remained relatively low, at 2.6%, 0.2% and 0.7% in 2014, 2015 and 2016, respectively.

Panama boasts a sophisticated and dynamic financial industry, ranked 15th overall worldwide by the World Economic Forum and sixth in ease of adopting technologies largely as a result of the significant presence of large multinational corporations. The financial industry is bolstered by a strong consumer culture and a bancarization index (measuring the number of local gross loans as a percentage of GDP) of 88% of GDP, which is the highest in Latin America. As of December 31, 2016, the National Banking System had assets totaling US\$101,152.4 million, increasing by 3.8% from December 31, 2015. Gross loans amounted to US\$64,524.9 million and investments in securities amounted to US\$16,390.6 million, in each case as of December 31, 2016, increasing by 4.5% and 2.2%, respectively, as compared to December 31, 2015. The National Banking System registered returns on assets of 1.3% and returns on equity of 12.1% on average as of December 31, 2016.

The National Banking System is well-capitalized, and our levels are aligned with the National Banking System’s average capitalization levels. Our consolidated capital adequacy index as of December 31, 2016, 2015 and 2014 was 14.4%, 14.2% and 13.6%, respectively, compared to the National Banking System’s average capital adequacy levels of 15.1%, 14.9% and 14.7%, respectively. As a result, we believe we are well-positioned to take advantage of the continuing growth of the Panamanian economy.

### ***Extensive nationwide network***

Banistmo has an extensive nationwide network, with a presence in nine of Panama's ten provinces. Banistmo distributes its products and services through one of the broadest networks in the country, which has grown from 359 to 510 service points from December 2014 to June 2017, principally due to the expansion of our ATMs and non-banking agents (third parties that are connected to us through real time data transmission systems and that offer our services to current and prospective customers). As of June 30, 2017, our network had 327 ATMs, 132 non-banking agents and 51 branch offices. Additionally, our network consists of a corporate headquarters, a representative office in Guatemala, a promotion and marketing scheme in Colombia, a virtual branch, a mobile app, call center services, a digital messaging platform and our digital marketing through Twitter, Facebook and Instagram. Our electronic network has had growing success, with approximately 92.6% of all currency transactions being made through electronic means in 2016, as compared to 89.1% in 2015 and 87.0% in 2014. This network provides customers with convenient access in a cost-effective manner for our business.

The following table sets forth information on our points of service for 2014, 2015, 2016 and 2017:

	<b>Total Points of Service</b>	<b>ATMs</b>	<b>Branches and Non-Banking Agents</b>
<b>As of December 31, 2014</b>	359	304	53
<b>As of December 31, 2015</b>	461	323	138
<b>As of December 31, 2016</b>	484	328	164
<b>As of June 30, 2017</b>	510	327	183

The following map illustrates our presence throughout Panama as of June 30, 2017:



### ***Diversified business profile and sustained growth***

Through our core lines of business (Corporate & Government and Retail & SMEs), we are able to service our different customer segments according to their needs. From salaried workers to large investors, and from SMEs to large corporations, we serve our customers with qualified staff, providing sophisticated products and services that meet customers' needs quickly and efficiently.

We have developed a sophisticated and comprehensive business platform with a diverse business mix. As of June 30, 2017, we received 81.4% of our total income before provision from net interest income, 18.1% from fees and 0.5% from other sources of income. With respect to interest income, 93.8% of such income is interest derived from our loan portfolio, while 6.3% is interest on securities and interest on deposits with other banks. As of June 30, 2017, our loan portfolio was well-diversified, comprised of 9.4% commercial loans, 17.5% construction loans, 7.3%

industrial loans, 8.7% personal loans, 29.0% residential mortgage loans, 6.8% SMEs loans and 21.3% other loans. As a result, we are not overly dependent on any particular sector of the economy. No single entity accounted for more than 2.0% of our loan portfolio. Our 20 largest borrowers accounted for 37.1% of total Corporate & Government loan portfolio.

We have also had sustained growth in loans and total assets in recent years, with annual growth rates of 2.8%, 7.3% and 3.1% in terms of assets and 5.8%, 8.8% and 11.6% in terms of our net loan portfolio in 2016, 2015 and 2014, respectively. For the six months ended June 30, 2017, our return on equity was 8.1% and our return on assets was 0.9% compared to 6.6% and 0.7%, respectively, for the six months ended June 30, 2016. For the year ended December 30, 2016, our return on equity was 4.6% and our return on assets was 0.5% compared to 10.4% and 1.1% for the year ended December 2015 and 9.0% and 0.9% for the year ended December 2014. In addition, we have had sustained growth for the last three years, with compound annual growth rates of 5.1% in terms of assets and 7.6% in terms of loans during the 2014-2016 period. Our annual growth rate for the six month period ended June 30, 2017 was 4.4% in terms of assets and 5.5% in terms of net loan portfolio, compared to June 30, 2016.

### ***Stable and diversified sources of funding with strong capital support***

We have a diversified and growing base of deposits and are able to support continued growth of assets at a low cost. As of June 30, 2017, our deposit base was 50.8% fixed-term deposits, 22.7% savings accounts, 18.5% current accounts and 8.0% interbank time deposits. As of December 31, 2016, our deposit base was 50.2% fixed-term deposits, 23.8% savings accounts, 20.0% current accounts, and 6.0% interbank time deposits. We have the second-highest market share of deposits in the National Banking System as of June 30, 2017.

We maintain a low cost of funds. For the six months ended June 30, 2017, and the years ended December 31, 2016, 2015 and 2014, we paid total interest on deposits of US\$71.9 million, US\$126.0 million, US\$113.7 million and US\$107.5 million, on average deposits for those periods of US\$6,819.9 million, US\$6,559.1 million, US\$6,279.0 million and US\$5,907.1 million respectively, resulting in an average cost of deposits of 2.1%, 1.9%, 1.8% and 1.8% per annum, respectively. For the six months ended June 30, 2017, and the years ended December 31, 2016, 2015 and 2014, our total interest expenses were US\$88.0 million, US\$155.4 million, US\$134.8 million and US\$129.3 million, on average total funding for those periods of US\$7,940.3 million, US\$7,755.6 million, US\$7,456.6 million and US\$7,036.9 million, respectively, resulting in a total cost of funds of 2.2%, 2.0%, 1.8% and 1.8% per annum, respectively, for such periods.

As of June 30, 2017, our total funding composition was: 43.5% time deposits, 19.2% savings account deposits, 15.7% current account deposits, 6.8% interbank time deposits and 14.8% borrowings. As of December 31, 2016, our total funding composition was: 42.9% time deposits, 20.2% savings account deposits, 16.9% current account deposits, 5.0% interbank time deposits and 15.0% borrowings.

In terms of efficiency, for the six months ended June 30, 2017 our ratio of total general and administrative expenses to total income was 49.1% and our ratio of total general and administrative expenses to average interest-earning assets was 2.3%, whereas for the year ended December 31, 2016, our ratio of total general and administrative expenses to total income was 59.1% and our ratio of total general and administrative expenses to average interest-earning assets was 2.5%. The National Banking System averages were 58.6% and 2.3%, respectively, for the year ended December 31, 2016.

We intend to continue developing and taking advantage of our various sources of funding according to cost and availability and to continue to diversify our funding base by accessing the capital markets.

### ***Highly experienced management team***

Our senior management team has extensive experience in the banking industry, with each member having between 15 and 25 years of experience. The members of our Board of Directors each have between 25 and 30 years of experience in banking and financial services.

## **Our Strategy**

Our strategy since our acquisition by Bancolombia has focused on two main goals: first, to design our business in a customer-centric approach, structuring and directing all of our activities so as to better serve our customers; and second, to be a universal bank, capable of serving any type of individual and entity, from workers to high net worth individuals and from SMEs to big corporations. With these two goals in mind, we updated, and continue to update, the technology used in our operations, and we re-designed our approach to customer service and restructured our branches, among other measures.

Going forward, we intend to generate customer preference by strengthening the bond between our customers and our organization, the products and services we offer and our values; to continue to grow in the market segments in which we operate; to maintain an innovative culture; to attract employee talent; and to grow shareholder profit through sustainable growth.

We believe we are a market leader in terms of innovation, and customer recognition and experience, and seek to continue to lead the market and to generate sustainable growth through the following strategic initiatives:

### ***Leverage the support and sponsorship of Grupo Bancolombia***

We plan to continue leveraging the support and sponsorship of Bancolombia to remain one of the leading financial institutions in Panama, and to form a key part of Grupo Bancolombia's regional platform in Central America, which is a cornerstone of Grupo Bancolombia's strategy.

Bancolombia's experience in our two core businesses is vital to our operations. As part of Grupo Bancolombia, we receive constant support from Bancolombia and leverage its know-how in the implementation of innovative methodologies, customer relationships and product design, among others. As a result, we are better positioned to execute our growth strategies by focusing on new products and services as well as strategic alliances, which in turn helps us to develop our brand awareness as a trend setter in the Panamanian banking market. We are also able to leverage Grupo Bancolombia's favorable perception and reputation in the region to enhance our efforts to attract customer deposits.

We have also developed important partnerships, for example with airlines to market credit cards, which were not part of our core business before our acquisition by Grupo Bancolombia. We also have launched other digital initiatives, such as our mobile app "App Banistmo" and "Nequi," a mobile wallet.

Being a part of Grupo Bancolombia's regional platform also allows us to take advantage of the experience acquired by Grupo Bancolombia through its presence in different markets and gives us access to best-in-class suppliers at advantageous pricing terms. In addition, since being acquired by Grupo Bancolombia we have enhanced key areas of our operations, such as our cyber-security network, thanks to the implementation of ISOC a cyber-security software. We are also digitalizing our processes under a software license negotiated by Grupo Bancolombia, and investing in document management and data analytics ("big data"), leveraging the technological capacity of Grupo Bancolombia. See "*Our Competitive Strengths - Unique sponsorship from Grupo Bancolombia, supporting our business strategy and future growth.*"

Through the implementation of Grupo Bancolombia's best practices at a regional level, we plan to continue reducing operational costs and improving our risk models and credit metrics in order to continue achieving sustainable growth.

### ***Continue to strengthen our operational and financial efficiency***

The growth of our business challenges us to further strengthen our operations in order to consistently provide our customers with robust services across our multiple platforms. We intend to make significant investments over the next several years to update our core banking system and other technology platforms to provide our customers with services of the highest quality that meet their needs, while at the same time allowing us operate more efficiently. These investments will include the development of a new technological platform, which will

include new accounting systems, development of new customer relations management tools and data warehouses, and big data capability, among others. We believe these investments will increase the overall efficiency of our operations, while also decreasing the time required to implement new internal procedures and roll out new products.

Additionally, we continue to improve our security systems, which is required in light of the increasing levels of automation and digitization in our business operations. All of these initiatives are supported by the expertise of Grupo Bancolombia, which shares its best practices with us and provides us with access to technology services at competitive pricing terms.

### ***Commitment to our customers and employees***

A key corporate strategy is the continuous strengthening of our connection with customers through our products and services. We work to deliver efficiently superior quality products and services that our customers need, and we seek to exceed their expectations and demonstrate operational and technological excellence in doing so, thereby enhancing their loyalty to us. We aim to be convenient and accessible to our customers, as evidenced by the number of our branches, our wide ATM network, the distribution of our non-banking agents and the availability of customer service resources and reliable digital and mobile channels. We will continue to grow our network by expanding our use of non-banking agents, which provide to us a cost-efficient way to grow and reach additional customers, and by also expanding the type of transactions that customers can execute through digital and self-management processes.

To be the most convenient option for our customers we need to retain the most qualified talent. We therefore seek to implement a high-performance culture in which we value employee excellence and recognize our employees when they exceed expectations. We also promote ethical values and professional development, through periodic training to provide our employees with the necessary skills to serve our customers and to grow professionally.

### ***Continue to innovate to improve customer experience***

Technology has created new opportunities for us, enabling new distribution channels while breaking the traditional model and penetrating new markets. Following our acquisition by Bancolombia, we have begun to implement a robust innovation strategy with a focus on digital services. We are implementing mobile and digital experiences to be always “at hand” where, when and how the customer needs us. The launch of our mobile application in October 2015 was one of our first major steps in this direction. As of June 30, 2017, our mobile application had 97,812 downloads, 42,814 active customers and a 4.4/5 rating in online application stores. We also recently launched “Nequi,” a mobile wallet, and “Chat Banistmo,” a messaging platform that allows us to interact with our customers. In implementing these initiatives we benefit from the know-how gained by Bancolombia. We are committed to continuing to develop our digital channels to add features for the benefit of our customers.

Another strategic front is the development of non-traditional channels for customer experience. In October 2015, we launched our non-banking agents program called “Banistmo By Your Side.” As of June 30, 2017, we have 132 non-banking agents with whom customers can work to find exclusive cashiers where they can make deposits and withdrawals from their accounts, pay utility bills, send local money orders and make credit card and loan payments, among many other services. This distribution channel provides us with a cost-efficient way to grow and reach additional customers. We also developed “Clave Giro,” a first of its kind service in Panama, that enables Banistmo’s customers to securely send local money transfers 24 hours a day through our ATM network using their debit cards. These transfers are available to persons with or without access to banking services with the use of a virtual key code sent through a text message. We also plan to make investments to expand the types of transactions that customers can execute through digital and self-management processes.

We aim to be convenient and accessible to our customers, as evidenced by the number of our branches, our wide ATM network, the distribution of our non-banking agents and the availability of customer service resources and reliable online channels. We believe that these initiatives will help us to improve efficiencies, cost structure and profitability. We believe that, thanks to the support of Grupo Bancolombia, we are able to bring innovative products to market in a faster and more efficient way, as we generally leverage on Bancolombia’s know-how and service

providers used by Bancolombia or other group affiliates, which allow us to reduce our costs as well as time-to-market.

For more information on our distribution channels, see “*Business–Distribution Channels.*”

### ***Continue to implement solid policies on credit risk and risk management***

We maintain a well-diversified and balanced loan portfolio across customers and sectors, supported by a strict and systematic credit approval process that is tailored to the size of each potential credit and in line with international practices and standards of credit approval by Grupo Bancolombia. Our comprehensive risk management involves the identification, assessment, monitoring, control and mitigation of all risks to which the bank is exposed. These include credit, market, liquidity, operational, legal and regulatory compliance, strategic, reputational and behavioral risks. We employ value-at-risk analyses and stress testing, and we employ analyses of interest rate metrics, liquidity and cash flow gaps per currency and evaluation of liquid assets, among others. We plan to continue to strengthen and implement solid policies on credit risk and risk management. For more information on our risk management policies, see “*Risk Management.*”

### **The Panamanian Economy**

Panama, a country with a population of nearly 4 million people, has experienced some of the most significant economic growth in Latin America in the last several years. Panama had a nominal GDP of US\$55,188 million in 2016, which was one of the largest in Central America. According to the INEC, real GDP rose 6.2% during the first quarter of 2017 as compared to the same period of 2016. Quarterly real GDP (valued at prices from 2007), totaled US\$9,580 million for the first quarter of 2017, which represents an increase of US\$559 million as compared to the same quarter in 2016. Panama had GDP growth of 9.2% in 2012, 6.6% in 2013, 6.1% in 2014, 5.8% in 2015 and 4.9% in 2016, which is significantly above the regional average for each of those periods. Nominal GDP per capita in Panama increased from US\$10,590 in 2012 to US\$13,680 in 2016, whereas nominal GDP per capita in Latin America and the Caribbean has decreased from US\$10,021 in 2012 to US\$8,156 in 2016.

Panama’s international monetary reserves, published by World Bank Data, were approximately US\$2,848 million as of December 31, 2013, US\$4,032 million as of December 31, 2014, US\$3,378 million as of December 31, 2015 and US\$3,847 as of December 31, 2016. Inflation, which has remained relatively low over the past five years was 5.7% for 2012, 4.0% for 2013, 2.6% for 2014, 0.2% for 2015 and 0.7% for 2016. Unemployment rates have remained steady over the past five years, at 4.1% as of December 31, 2012, 4.1% as of December 31, 2013, 4.8% as of December 31, 2014, 5.1% as of December 31, 2015 and 5.5% as of December 31, 2016.

The Panamanian economy is largely focused on the services sector, which represented approximately 76% of the country’s GDP as of December 31, 2016. A significant portion of Panama’s economic activity is linked directly or indirectly to the Panama Canal, shipping and port activities, a large free trade zone, an international banking center, construction and tourism services. However, no single industry dominates the Panamanian economy, with no individual industry accounting for more than 20% of GDP, with trade accounting for 17%, construction accounting for 16% and real estate accounting for 15% of overall GDP, each as of December 31, 2016.

According to public sources, Panama maintains investment grade sovereign ratings for its debt, currently rated Baa2, BBB and BBB by Moody’s, Standard & Poor’s and Fitch, respectively.

## THE OFFERING

*The following is a brief summary of certain terms of the offering. For a more complete description of the terms of the offering, see “Description of the Notes” in this offering memorandum. Capitalized terms used but not defined herein have the meanings assigned to such terms therein and in the Indenture. You should carefully consider the risk factors under the caption “Risk Factors” before purchasing any Notes.*

The Issuer .....	Banistmo S.A.
Notes Offered .....	US\$500,000,000 aggregate principal amount of 3.650% senior Notes due 2022 payable in U.S. dollars.
Issue Date .....	September 19, 2017.
Maturity Date.....	September 19, 2022.
Interest .....	The Notes will bear interest at a fixed rate of 3.650% per annum, payable semi annually in arrears on March 19 and September 19 of each year, commencing on March 19, 2018. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months.
Ranking.....	The Notes will be senior unsecured obligations of the Issuer and will rank <i>pari passu</i> , without any preference among themselves, with all other present and future obligations of the Issuer (other than obligations preferred by statute or by operation of law).
Use of Proceeds .....	The net proceeds from the offering of the Notes will be used by the Issuer for general corporate purposes. See “ <i>Use of Proceeds.</i> ”
Indenture.....	The Notes will be issued pursuant to the Indenture among the Issuer, The Bank of New York Mellon, as Trustee, registrar, paying agent and transfer agent.
Optional Redemption.....	We may, at our option, at any time prior to August 19, 2022, redeem any of the Notes, in whole or in part, at a redemption price equal to the greater of 100% of the principal amount of the Notes to be redeemed and a “make-whole” amount, in each case plus any accrued and unpaid interest on the principal amount of the Notes to, but excluding, the date of redemption. At any time on or after August 19, 2022, we may, at our option, redeem any of the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest on the principal amount of the Notes to, but excluding, the date of redemption. See “ <i>Description of the Notes—Optional Redemption.</i> ”
Early Redemption upon a Withholding Tax Event.....	The Notes are redeemable upon the occurrence of a Withholding Tax Event at our option, in whole but not in part, at a redemption price equal to a Base Redemption Amount. See “ <i>Description of the Notes—Early Redemption upon a Withholding Tax Event.</i> ”

Change of Control .....	We will be required to offer to repurchase all or any part of outstanding Notes at a purchase price equal to 101% of the aggregate principal amount plus accrued and unpaid interest to the date of the repurchase, if Bancolumbia or an affiliate of Bancolumbia ceases to be our controlling shareholder or to own more than 50% of our voting stock. See “ <i>Description of the Notes—Change of Control Offer.</i> ”
Covenants .....	<p>The Indenture contains covenants that, among other things:</p> <ul style="list-style-type: none"> <li>• limit our ability to consolidate with or merge into, or to convey or transfer, in one transaction or series of transactions, all or substantially all our properties and assets to another person;</li> <li>• require us to maintain an office or agent for service of process in the Borough of Manhattan, New York, New York; and</li> <li>• require us to furnish to the Trustee certain supplementary and periodic financial and other information.</li> </ul> <p>These covenants are subject to a number of important limitations and exceptions. See “<i>Description of the Notes—Certain Covenants.</i>”</p>
Events of Default under the Notes .....	The Indenture will set forth the events of default under the Notes. There are no other events of default under the Notes. See “ <i>Description of the Notes—Events of Default.</i> ”
Plan of Distribution; Form of Notes .....	The Issuer is offering the Notes in the United States only to “qualified institutional buyers” in reliance on Rule 144A under the Securities Act and outside the United States in compliance with Regulation S of the Securities Act. The Notes will be in fully registered form without interest coupons attached and will be represented by one or more Global Notes deposited with, or on behalf of, DTC. Certificated Notes will be available only under the limited circumstances described herein. See “ <i>Issuance, Form and Denomination.</i> ”
Minimum Denominations .....	The Notes will be denominated and payable in U.S. dollars and will be issued in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.
Transfer Restrictions; Trading .....	The Notes have not been and will not be registered under the Securities Act or the securities laws of any state in the United States and are subject to certain restrictions on transfer and resale for the life of the Notes. The Notes have not been and will not be registered with the SMV and therefore, (i) the Notes are not authorized for public offering in Panama and may not be offered, placed, distributed, commercialized and/or negotiated publicly in Panama, except in transactions exempted from registration as prescribed and in accordance with Panamanian securities laws and regulations, (ii) documents relating to the offering of the Notes, as well as information contained therein, may not be distributed publicly in Panama nor be used in connection with any public offering for subscription or sale of

the Notes in Panama, (iii) the SMV has not reviewed the information contained in this offering memorandum, (iv) the Notes and offering thereof are not subject to the supervision of the SMV, and (v) the Notes do not benefit from the tax incentives provided by Panamanian securities laws. There is currently no market for the Notes, and we cannot assure you as to the development or liquidity of a market for the Notes. See “*Risk Factors—Risks Relating to the Notes—The Notes are subject to restrictions on transfer*” and “*—There is no established trading market for the Notes and Noteholders may not be able to sell them quickly or at the price that you paid.*”

U.S. Federal Income Tax Consequences .....	For a discussion of the United States tax treatment of the Notes, see “ <i>Taxation—U.S. Federal Income Tax Considerations.</i> ”
Clearance and Settlement .....	The Notes will be issued in book-entry form through the facilities of DTC for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, <i>société anonyme</i> , or Clearstream. Beneficial interests in the Notes held in book-entry form will not be entitled to receive physical delivery of certificated Notes except in certain limited circumstances. For a description of certain factors relating to clearance and settlement, see “ <i>Issuance, Form and Denomination.</i> ”
Listing .....	Application will be made for the listing and quotation of the Notes on the SGX-ST. Upon listing on the SGX-ST, and for so long as the Notes are so listed and the rules of the SGX-ST so require, the Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000.
	So long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a global certificate is exchanged for certificated notes. In addition, in the event that a global certificate is exchanged for certificated notes, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST. Such announcement will include all material information with respect to the delivery of the certificated notes, including details of the paying agent in Singapore.
Governing Law .....	The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York, United States of America.
Trustee, Paying Agent, Transfer Agent and Registrar .....	The Bank of New York Mellon.
Risk Factors .....	Prospective investors should carefully consider the information under “ <i>Risk Factors</i> ” in connection with the other information contained in this offering memorandum.

## SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables present selected historical financial information as of and for each of the periods indicated. The financial information as of and for the years ended December 31, 2016, December 31, 2015 and 2014 has been derived from our Audited Financial Statements. The financial information as of June 30, 2017 for the six-month periods ended June 30, 2017 and 2016 has been derived from our Unaudited Financial Statements. Interim results are not necessarily indicative of the results to be expected for the entire fiscal year. Our Audited Financial Statements for each period were prepared in accordance with IFRS and our Unaudited Financial Statements have been prepared in accordance with IAS 34.

The selected historical financial information presented below should be read in conjunction with “Presentation of Certain Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Financial Statements included elsewhere in this offering memorandum.

### Summary Consolidated Statement of Profit or Loss

	<b>Banistmo and Subsidiaries</b>		<b>Banistmo and Subsidiaries</b>		
	<b>For the six months ended June 30,</b>		<b>For the year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(Amounts in US\$ millions)</i>				
<b>Consolidated Statement of Profit or Loss</b>					
Total interest and commission income.....	247.5	222.2	456.5	412.8	385.7
Total interest expense .....	88.0	73.2	155.4	134.8	129.3
<b>Net interest and commission income, before provisions .....</b>	<b>159.5</b>	<b>149.0</b>	<b>301.1</b>	<b>278.0</b>	<b>256.4</b>
Provision for impairment of financial assets .....	49.8	40.6	101.9	40.4	38.9
<b>Net interest and commission income, after provisions .....</b>	<b>109.7</b>	<b>108.4</b>	<b>199.1</b>	<b>237.6</b>	<b>217.5</b>
Total income from banking and other services, net .....	43.1	27.0	57.8	46.8	50.5
Total general and administrative expenses.....	99.4	98.8	212.2	199.4	190.2
<b>Profit before income tax and discontinued operations.....</b>	<b>53.4</b>	<b>36.6</b>	<b>44.8</b>	<b>85.0</b>	<b>77.8</b>
Income tax expense.....	11.7	4.5	(1.0)	15.0	16.5
<b>Profit for the period from continuing operations .....</b>	<b>41.6</b>	<b>32.1</b>	<b>45.8</b>	<b>70.0</b>	<b>61.3</b>
Profit for the year from discontinued operations, net of income tax	0.0	0.0	0.0	24.7	15.5
<b>Net profit for the period .....</b>	<b>41.6</b>	<b>32.1</b>	<b>45.8</b>	<b>94.7</b>	<b>76.8</b>

### Summary Consolidated Statement of Financial Position

	<b>Banistmo and Subsidiaries</b>				
	<b>As of June 30,</b>		<b>As of December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(Amounts in US\$ millions)</i>				
<b>Assets</b>					
Cash and cash effects .....	120.5	145.0	203.9	224.2	123.0
Total deposits in financial institutions .....	735.7	773.2	741.5	722.7	893.9
Total cash, cash effects and deposits.....	856.2	918.2	945.4	946.9	1,016.9
Investments in securities .....	760.3	687.9	735.3	870.5	760.5
Gross loans .....	7,604.5	7,153.8	7,326.7	6,866.5	6,310.0
Interest receivable.....	26.6	27.6	34.1	27.7	23.5
Less:					
Allowance for impairment .....	141.4	91.0	122.1	66.3	62.5
Unearned and discounted interest and commissions.....	99.6	86.6	95.0	73.6	62.2
Loans, net.....	7,390.1	7,003.8	7,143.7	6,754.3	6,208.8
Other assets .....	348.3	353.7	349.6	349.2	326.1
Total assets.....	9,354.9	8,963.6	9,174.1	8,920.9	8,312.2

	<b>Banistmo and Subsidiaries</b>				
	<b>As of June 30,</b>		<b>As of December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(Amounts in US\$ millions)</i>				
<b>Liabilities and Equity</b>					
Liabilities:					
Customers' deposits.....	6,335.1	6,012.3	6,321.3	6,251.6	5,930.9
Interbank deposits.....	548.2	429.5	399.2	352.6	172.6
Total customers' and interbank deposits.....	6,883.3	6,441.8	6,720.5	6,604.2	6,103.5
Borrowings.....	1,193.3	1,238.5	1,184.8	1,093.1	1,024.1
Other liabilities.....	229.7	306.8	261.1	275.8	306.8
Total liabilities.....	8,306.3	7,987.2	8,166.4	7,973.2	7,434.4
Total equity.....	1,048.6	976.4	1,007.7	947.8	877.8
Total liabilities and equity.....	9,354.9	8,963.6	9,174.1	8,920.9	8,312.2
<b>Other Financial Data and Ratios</b>					
The selected financial data and ratios presented below have been derived from and should be read in conjunction with our Financial Statements and other financial information contained elsewhere in this offering memorandum.					
	<b>June 30,</b>		<b>December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(in percentages or US\$ millions)</i>				
<b>Profitability and Efficiency</b>					
Return on average total assets.....	0.9%	0.7%	0.5%	1.1%	0.9%
Return on average stockholders' equity.....	8.1%	6.6%	4.6%	10.4%	9.0%
Net interest margin.....	3.0%	2.9%	3.0%	2.8%	2.6%
Efficiency ratio <sup>(1)</sup> .....	49.1%	56.2%	59.1%	61.4%	62.0%
Administrative expenses/average total assets.....	2.2%	2.2%	2.3%	2.3%	2.3%
<b>Regulatory Liquidity Ratio (period end)<sup>(2)</sup></b>					
Average.....	47.4%	47.5%	48.3%	45.5%	46.2%
High.....	49.8%	49.6%	51.3%	48.8%	52.8%
Low.....	45.8%	46.2%	46.2%	41.1%	41.3%
<b>Risk-Based Capital (period end)</b>					
Stockholders' equity as a percentage of total assets <sup>(3)</sup> .....	11.2%	10.9%	11.0%	10.6%	10.6%
Primary Capital.....	839.6	903.1	802.9	877.5	759.5
Regulatory Capital.....	934.7	903.1	895.8	877.5	759.5
Risk-Weighted Assets.....	6,429.1	6,153.6	6,221.2	6,164.9	5,592.4
Primary Capital to Risk-Weighted Assets Ratio.....	13.1%	14.7%	12.9%	14.2%	13.6%
Regulatory Capital to Risk-Weighted Assets Ratio <sup>(4)</sup> .....	14.5%	14.7%	14.4%	14.2%	13.6%
Excess of Total Net Capital over minimum capital requirement.....	420.4	410.8	398.1	384.3	312.1
<p>(1) Total general and administrative expenses for the period divided by the sum of Total interest and commission income minus Total interest expense plus Total income from banking and other services, net for the same period.</p> <p>(2) Corresponds to Regulatory Liquidity Ratio, for which the required minimum was 30% for each period presented.</p> <p>(3) Refers to the end-of-period stockholders' equity divided by the end-of-period total assets.</p> <p>(4) The required minimum Regulatory Capital to Risk-Weighted Assets Ratio for Banistmo was 8% for each period presented.</p>					
<b>Credit Quality Data</b>					
	<b>As of June 30,</b>		<b>As of December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(in percentages or US\$ millions)</i>				
Total performing loans <sup>(1)</sup> .....	7,335.1	6,939.7	7,111.7	6,697.7	6,167.6
Total NPLs <sup>(2)</sup> .....	196.4	155.1	154.2	123.0	103.7

	As of June 30,		As of December 31,		
	2017	2016	2016	2015	2014
	<i>(in percentages or US\$ millions)</i>				
NPLs/total performing loans.....	2.7%	2.2%	2.2%	1.8%	1.7%
Allowance for loan-losses.....	141.4	91.0	122.1	66.3	62.5
Allowance for loan-losses as a percentage of total loans <sup>(3)</sup> .....	1.9%	1.3%	1.7%	1.0%	1.0%
Coverage ratio <sup>(4)</sup> .....	72.0%	58.7%	79.2%	53.9%	60.3%
Coverage ratio plus Dynamic Reserve.....	120.4%	118.5%	139.4%	125.9%	131.4%
NPL Ratio <sup>(5)</sup> .....	2.6%	2.2%	2.1%	1.8%	1.7%
Write-offs/loans <sup>(6)</sup> .....	0.5%	0.3%	0.8%	0.7%	0.7%

- (1) Performing loans refers to credits with 0 to 90 days past due.
- (2) Non-performing loans (NPL) refers to credits with 90 days or more past due.
- (3) Refers to the end-of-period allowance for loan-losses divided by the end-of-period total loans.
- (4) Refers to the end-of-period allowance for loan-losses divided by the end-of-period NPLs.
- (5) NPLs for the period divided by total loans for the period.
- (6) Write-offs for the period divided by average gross loans for the same period.

## RISK FACTORS

*Before making any investment in the Notes, you should carefully read this offering memorandum and consider carefully, in light of your own financial circumstances and investment objectives, all of the information set forth in this offering memorandum, including, without limitation, the risk factors set forth below. These risks are not the only risks that affect our operations and our business. Additional risks not presently known to us or that we currently deem immaterial may also impair our business and our business and operations. Our business, financial condition, results of operations and ability to satisfy our obligations under the Notes could be materially adversely affected by any of these risks. The trading price of the Notes could decline if any of these risks occurs, and you could lose all or part of your investment.*

### **Risks Relating to Us**

***We are dependent on the political, legal and economic climate in Panama.***

Our financial condition and results of operations, and our ability to meet our obligations under the Notes, are substantially dependent on the economic conditions prevailing from time to time in Panama.

The Panamanian economy is small and relatively undiversified, and largely focuses on the service sector, which represents approximately 76% of the country's GDP as of December 31, 2016. A significant portion of Panama's economic activity is linked directly or indirectly to the Panama Canal, shipping and port activities, a large free trade zone, an international banking center, construction and tourism services. Due to the small size and limited focus of the Panamanian economy, adverse developments in Panama could have a more pronounced effect on our business than would be the case if within the context of a larger, more diversified economy. Investing in an emerging market country, such as Panama, carries economic risks. These risks include many different factors that may affect Panama's economic results, including the following:

- interest rates in the United States and other financial markets outside Panama;
- changes in economic or tax policies;
- the imposition of trade barriers;
- general economic and business conditions in Panama and the global economy;
- the ability of Panama to effect key economic reforms;
- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy;
- the decisions of international financial institutions regarding the terms of their financial assistance to Panama.

Any adverse effect on the Panamanian economy could adversely affect our business, thereby impairing the ability to meet our payment obligations under the Notes.

***We are subject to credit risk, and estimating exposure to credit risk involves subjective and complex judgments.***

A number of our products, including loans, financial leases and derivatives, expose us to credit risk. We estimate and establish reserves for credit risk and potential credit losses. This process involves subjective and complex judgments, including projections of economic conditions and assumptions about the ability of our borrowers to repay their loans. We may not be able to timely detect these risks before they occur, or due to limited resources or available infrastructure, our employees may not be able to effectively implement our credit risk management system, which may increase our exposure to credit risk. Moreover, our failure to continuously refine

our credit risk management system may result in a higher risk exposure for us, which could materially and adversely affect our results of operations and financial position.

If we are unable to effectively control the level of non-performing or poor credit quality loans in the future, or if our loan-loss reserves are insufficient to cover future loan-losses, our financial condition and results of operations may be materially and adversely affected. In addition, the amount of our non-performing loans may increase in the future as a result of factors beyond our control, such as changes in the income levels of our borrowers, increases in the inflation rate or an increase in interest rates, the impact of macroeconomic trends and political events affecting Panama or events affecting specific industries. Any of these developments could have a negative effect on the quality of our loan portfolio, requiring us to increase provisions for loan-losses and resulting in reduced profits or losses.

***Our loan portfolio may not continue to grow at the same or similar rates as it has in the past.***

We hold a diversified loan portfolio, consisting as of June 30, 2017 of 45.5% Corporate & Government loans and 54.5% Retail & SMEs loans. Residential mortgages in particular accounted for 29.0% of our total loan portfolio. A sharp slowdown or negative GDP growth, as well as a change in the behavior of banking customers, could adversely affect the growth rate of the industry and, therefore, the expansion of our loan portfolio. These factors could also affect our credit quality indicators and, accordingly, lead us to establish higher allowances for loan-losses. These events could have a material adverse effect on us.

***The growth of our loan portfolio may expose us to increased loan-losses.***

During the three-year period ended December 31, 2016, our total loan portfolio grew at a compounded average growth rate of 7.6% per year. The expansion of our loan portfolio has exposed us to higher levels of write-offs and may require us to establish higher levels for loan-losses in the future. The compounded average growth rate in our Retail & SMEs portfolio was 14.6%, whereas the allowance for loan-losses grew at a compounded average rate of 26.6%, primarily as a result of the expansion of this portfolio and the expected change in the credit risk profile of our Retail & SMEs customer base. The compounded average growth rate in our Corporate & Government loan portfolio for the three-year period ended December 31, 2016 was 0.4%, whereas the allowance for loan-losses grew at a compounded average rate of 55.1%, mainly as a result of a deterioration of certain specific corporate clients. In addition, at June 30, 2017, our NPL Ratio slightly exceeded the ceiling permitted under a bilateral loan agreement, as a result of which we requested and obtained a waiver from the lender. We cannot assure you that the growth in our loan portfolio will not continue to have, or that future growth will not have, an adverse effect on us, including resulting in increased loan-losses and write-offs.

***Our allowances for loan-losses, without taking the Dynamic Reserve into account, may not be adequate to cover future actual losses to our loan portfolio.***

As of June 30, 2017, our allowance for loan-losses was US\$141.4 million, and the ratio of our allowance for loan-losses to total loans was 1.9%, 60 basis points higher than our allowance for loan-losses as of June 30, 2016 which was 1.3%. Our non-performing loans increased to US\$196.4 million as of June 30, 2017, from US\$154.2 million as of December 31, 2016 and US\$155.1 million as of June 30, 2016.

The amount of allowances is based on our current assessment of, and expectations concerning, various factors affecting the quality of our loan portfolio. These factors include, among other things, borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of any collateral, the prospects for support from any guarantor, Panama's economy, government macroeconomic policies, interest rates and the legal and regulatory environment. As the global financial crisis demonstrated, many of these factors are beyond the control of any single institution. In addition, as these factors evolve, the models we use to determine the appropriate level of allowance for impairment losses on loans and other assets require recalibration, which can lead to increased provision expenses. We believe our allowance is adequate as of the date hereof for all known losses. If our assessment of and expectations concerning the above-mentioned factors differ from actual developments, or if the quality of our loan portfolio deteriorates or the future actual losses exceed our estimates, our allowance for impairment losses may not be adequate to cover actual losses, and we may need to make additional provisions for impairment losses, which may materially and adversely affect our results of operations and financial condition.

***Our results of operations and financial condition could be negatively impacted by our investment portfolio.***

Our investment portfolio is composed mostly of investment grade government and corporate bonds. The value of certain of these investments may decline significantly due to volatile financial markets and may fluctuate over short periods of time. As of June 30, 2017, our investment portfolio classified as securities available-for-sale at fair value in our Unaudited Financial Statements represented 6.2% of our total assets, and 51.3% of these securities were issued by the Panamanian government or otherwise exposed to Panamanian sovereign risk; 31.8% were issued by the government of the United States; 12.4% were *Certificados de Participación Negociable*; and 4.5% were equity shares. From our total securities portfolio, as of June 30, 2017, debt securities issued by governments represented 78.3% of our portfolio, whereas debt securities issued by financial institutions and corporate issuers represented 18.3% of our total portfolio and equity shares represented 3.4% of our total portfolio. Realized and unrealized investment gains and losses have had and will continue to have an impact on our results of operations and financial condition. The amounts of such gains and losses, which we generally record when investments in securities are marked to market or recognized at fair value, may fluctuate considerably from period to period. A significant decline in the value of the securities issued or guaranteed by the Panamanian government or our other debt securities in our investment portfolio could lead to losses and, consequently, adversely affect our results of operations and financial condition.

***We face interest rate risk that is caused by the mismatch in maturities of interest-earning assets and interest-bearing liabilities.***

If not properly managed, a mismatch of interest-earning assets and interest-bearing liabilities can reduce net interest income as interest rates fluctuate. We face interest rate risk because interest-bearing liabilities generally re-price at a different pace than interest-earning assets. Our exposure to instruments whose values vary with the level or volatility of interest rates contributes to our interest rate risk. Failure to adequately manage eventual mismatches may reduce our net interest income during periods of fluctuating interest rates.

As of June 30, 2017, we had US\$8,507.2 million interest-earning assets and US\$6,825.5 million interest-bearing liabilities. One sensitivity analysis we use to assess our interest rate is to estimating the impact on our net interest income of hypothetical parallel shift of 100 basis points in interest rates. As of June 30, 2017, our sensitivity was US\$7.8 million positive for a period of 12 months against an increase of 100 basis points. Thus, an increase in interest rates would have a favorable impact on the net interest margin and a decrease in interest rates would have an adverse impact.

As our asset/liability mix changes, however, our net interest margin, which accounts for most of our income, could become exposed to unfavorable impacts from an increase in interest rates. When interest rates rise, we must pay higher interest on our borrowings while interest earned on our assets may not rise as quickly, which causes profits to decrease in the short term. Although we can adjust the interest rates of our retail portfolio to mitigate the impact of changes in interest rates, this process of adjustment may not be sufficient to fully offset the impact of a change in interest rates. For more information regarding our interest rate risk management activities, see “*Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities*” and “*Risk Management—Interest Rate Risk*.”

In addition, increases in interest rates may reduce the value of our financial assets. We hold a substantial portfolio of loans and debt securities that have both fixed and adjustable interest rates. The market value of a security with a fixed interest rate generally decreases when prevailing interest rates rise, which may have an adverse effect on our earnings and financial position. In addition, we may incur costs (which, in turn, will impact our results) as we implement strategies to reduce future interest rate exposure.

***We are subject to concentration of default risks in our loan portfolio. Problems with one or more of our largest borrowers, or problems in industries that concentrate a large percentage of our portfolio, may adversely affect our financial condition and results of operations.***

As of June 30, 2017, the aggregate outstanding principal amount of our 20 largest borrowers represented 16.9% of our loan portfolio. Two loans among our top 20 represent exposures to the same project. Taken together, the two loans (US\$198.4 million at June 30, 2017), represent 5.8% of the total Corporate & Government portfolio

and 2.6% of the total loan portfolio. A decrease in the credit quality of our top borrowers could lead us to establish higher allowances for loan losses or to write-off the loans, which could have a material adverse effect on us.

Our loan portfolio may also be affected by concentration of our borrowers within an industry. As of June 30, 2017, our loan portfolio was comprised of 9.4% commercial loans, 17.5% construction loans, 7.3% industrial loans, 8.7% personal loans, 29.0% residential mortgage loans, 6.8% SMEs loans and 21.3% other loans. Moreover, construction and commercial loans alone accounted for 20.9% of our top 20 borrowers in our Corporate & Government loan portfolio as of June 30, 2017. Adverse events or downturns in the industries that concentrate the largest amounts of our loan portfolio could materially and adversely affect our financial condition and results of operations.

***The value of the collateral securing our loans may not be sufficient, and we may be unable to realize the full value of the collateral securing our loan portfolio.***

The value of the collateral securing our loan portfolio may fluctuate or decline due to factors beyond our control, including, among others, macroeconomic factors in Panama and globally, as well as force majeure events. We also may not have sufficiently recent information on the value of collateral, which may result in an inaccurate assessment for impairment losses of our loans secured by such collateral. If any of the above occurs, we may need to make additional provisions to cover actual impairment losses of our loans, which may materially and adversely affect our business.

***Reductions in our credit ratings, or that of Bancolombia or Panama, could increase our cost of borrowings funds and negatively affect our ability to raise new funds, attract deposits and renew maturing debt.***

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations in our loan portfolio, the level and volatility of our earnings, our capital adequacy, the quality of management, the liquidity of our balance sheet, the availability of a significant base of core retail and commercial deposits and our ability to access a broad array of financing sources. Our lenders may be sensitive to the risk of a ratings downgrade.

Rating agencies regularly evaluate us by taking into account diverse factors, including our financial strength, the business environment and the economic backdrop in which we operate. Thus, methodologies used by rating agencies evaluate Panama's sovereign debt ratings when determining our ratings. Accordingly, if Panama's sovereign debt is downgraded, our credit rating could also be downgraded.

Any downgrade in our debt credit ratings, or that of Bancolombia or Panama could result in higher borrowing or refinancing costs for us while requiring us to post additional collateral or limiting our access to capital markets and borrowings from private lenders. All of these factors could adversely impact our commercial business by affecting our ability to: (i) sell or market our products, (ii) obtain long-term debt and engage in derivatives transactions, (iii) retain customers, (iv) maintain derivative contracts that require us to have a minimum credit rating, and (v) enter into new derivative contracts, which could impact our market risk profile, among other effects. Any of these factors could have an adverse effect on us.

***We face competition from other banking and financial institutions, and, if we are unable to compete successfully, our business may be adversely affected.***

The financial intermediation market in Panama is highly competitive. We face strong competition from local and foreign banks, including new entrants and non-banking financial institutions, which have placed pressure on our margins. Competition may reduce the average interest rates that we can charge our customers, increase the average rates we must pay on deposits and negatively affect loan growth. Some competitors may have access to greater resources and be more successful in the development of technologically advanced products and services that may compete directly with our products and services. If competitors are successful in developing products and services that are more effective or less expensive than the products and services we offer, we may be unable to compete successfully. Even if our products and services prove to be more effective than those developed by other

competitors, such other competitors may be more successful in marketing their products and services because of their greater financial resources, higher sales, marketing capacity and other factors.

We also face competition from non-banking competitors in some of our credit products, especially credit cards and installment loans. In these markets, competition from non-banking companies like large department stores, private compensation funds and saving and credit cooperatives has become increasingly significant. In addition, we face competition from other types of lenders, such as non-banking leasing and automobile financing companies.

We may not be able to maintain our market share if we are not able to match our competitors' loan pricing or keep pace with their development of new products and services. Adverse impacts resulting from increased competition could have a material adverse effect on our results of operations and financial condition.

***We may not be able to obtain the funding required to support further growth***

Our strategy to continue to expand and grow our loan portfolio will require us to continue to have an active funding strategy, including the requirement that we secure sources other than deposits to fund future loan growth, which may subject us to financial and operational covenants that could restrict our financial flexibility. A component of this growth strategy has been to identify and pursue growth-enhancing strategic opportunities. In order for us to grow, remain competitive, or meet regulatory capital adequacy requirements, we may require new capital in the future. Moreover, we may need to raise additional capital in the event of large losses in our total loan portfolio that result in a reduction of our shareholders' equity. Our access to funding will depend on many factors, including factors beyond our control, such as any credit crunch or other conditions in global capital markets and investors' perceptions of the risks of investing in Panama and emerging markets generally. We may not be able to obtain additional capital in a timely manner or on acceptable terms or at all. Our inability to obtain the capital resources necessary to realize our growth strategies could have a material adverse effect on us.

***Adverse conditions in the international credit and capital markets may significantly affect our ability to meet funding and liquidity needs and may increase our cost of funding.***

We plan to diversify our funding sources from traditional deposits and interbanking credit lines by also accessing international credit and capital markets to fund our business, extend our maturity profile and add additional sources of liquidity. Liquidity and costs of obtaining funding internationally are related to international credit and capital market conditions.

Global credit and capital markets have experienced higher volatility in recent years. While there have been periods of stability in these markets, the environment has become more unpredictable. The recent volatility in global financial markets has added to the uncertainty about the global economic outlook, and a number of countries are experiencing slowing economic activity. These events have damaged, and may continue to damage, market confidence and access to, and costs of, funding and may slow the activity of our customers and have other impacts on the entities with which we do business. The vulnerable nature of several sovereign nations and the associated impact on market conditions have resulted in a tightening of credit markets and wholesale funding conditions.

If market conditions deteriorate due to economic, financial, political or other reasons, our funding costs may be adversely affected, and our liquidity, funding and lending activities may be constrained.

Our access to funding will depend on many factors, including factors beyond our control, such as conditions in the international capital markets and investor perceptions of the risks of investing in Panama and in emerging markets generally. If we are unable to source appropriate funding from the capital markets, we may also be forced to reduce our lending or begin to sell liquid securities. Such actions may adversely impact our business, results of operations, liquidity, capital resources and financial condition.

***As a result of being part of Grupo Bancolombia, our resources, business or business opportunities may be diverted to other entities of such group, or operations of other subsidiaries of Bancolombia may be transferred to us, which may generate inefficiencies.***

We are part of Grupo Bancolombia, controlled by Bancolombia. Bancolombia could, at any time, devote resources or divert business opportunities away from us and towards other entities within Bancolombia, including to those that directly or indirectly compete with us. In addition, Grupo Bancolombia could transfer certain operations of other entities of Grupo Bancolombia to us, for capital efficiency, regulatory or other reasons. Should our resources, business or business opportunities be transferred to other entities of Grupo Bancolombia, or should operations that we are not able to efficiently integrate be transferred to us, our business, results of operations and financial condition could be adversely affected.

***We are controlled by Bancolombia whose interests could differ from the interests of the holders of the Notes.***

We are controlled by Bancolombia (see “*Business – Our Stockholders and Group Affiliates*”), which is in a position to exert significant influence over our management, including, but not limited to, determinations concerning dividend and other policies. Consequently, circumstances may arise in which the interests of Bancolombia diverge from the interests of note holders.

***Our businesses rely heavily on data collection, management and processing, storage and information systems, the failure of which could have a material adverse effect on us, including the effectiveness of the risk management, reputation and internal control systems as well as our financial condition and results of operations.***

Our main businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information across numerous and diverse markets, at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses and to our ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect our decision-making process, our risk management and internal control systems, the quality of our service and our ability to respond on a timely basis to changing market conditions. If we cannot maintain effective data collection, management and processing systems, our business operations, financial condition, reputation and results of operations could be materially and adversely affected. We are also dependent on information systems to operate our website, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures (including failure to update systems), viruses, computer “hackers” or other causes. Our ability to remain competitive depends in part on our ability to upgrade our information technology on a timely and cost-effective basis. We continually make investments and improvements in our information technology infrastructure in order to remain competitive. In the future, our business may not be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of our information technology infrastructure. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have a material adverse effect on our business. In addition, any material disruption or slowdown of our systems could cause information, including data related to customer requests and other client information, to be lost, compromised, or to be delivered to our clients with delays or errors, which could reduce demand for our services and products, resulting in additional costs for us and potentially fines and penalties by regulators, which could materially and adversely affect our results of operations and financial position.

***The loss of senior management, or our inability to attract, hire and maintain additional personnel, could have a material adverse effect on us.***

Our ability to maintain our competitive position and implement our growth strategy depends on our senior management. We cannot assure you that we will be successful in attracting, hiring and maintaining qualified personnel to be part of our senior management. The loss of some of the members of our senior management or Board of Directors, or our inability to attract, hire and maintain additional personnel, could have a material adverse effect on us.

The execution of our business plan also depends on our ongoing ability to attract and retain other qualified employees. If we are unable to hire, train and retain qualified employees at a reasonable cost, we may be unable to successfully operate our business or reach full planned production levels in a timely manner and, as a result, our business could be adversely affected.

***Our growth has posed operational challenges, which, if not addressed, could negatively affect our financial condition and results of operations.***

Demand for credit in Panama has grown significantly, and we have grown to meet that demand. Our gross loans less net fees plus interest receivables increased to US\$7,531.5 million as of June 30, 2017, from US\$7,265.9 million as of December 31, 2016, US\$6,820.6 million as of December 31, 2015 and US\$6,271.3 million as of December 31, 2014. As a result of this rapid growth, we face challenges in the recruitment of new talent and the training, supervision and retention of our employees and the need to continue to invest in systems and technology. Sustained growth will require high-quality systems and talented people, and extremely rapid growth in demand may overwhelm our capacity. If we are unable to develop our systems and human resources effectively, the resulting strains on credit quality and capacity for further growth may materially and adversely affect our financial condition and results of operations. In addition, the expansion of our loan portfolio may also result in higher rates of past-due and non-performing loans, which could materially adversely affect our financial condition and results of operations.

***We are subject to regulatory inspections, examinations, inquiries or audits in Panama, and any sanctions, fines and other penalties resulting from such inspections and audits could materially and adversely affect our business, financial condition, results of operations and reputation.***

We are subject to comprehensive regulation and supervision by the banking authorities of Panama, including the Superintendency of Banks. These regulatory authorities have broad powers to adopt regulations and impose other requirements affecting or restricting virtually all aspects of our capitalization, organization and operations, including the imposition of anti-money laundering measures and the authority to regulate the terms and conditions of credit that can be extended by banks. In the event of non-compliance with applicable regulations, we could be subject to fines, sanctions or the revocation of licenses or permits to operate our business. Any sanctions, fines and other penalties resulting from non-compliance with regulations in Panama and other jurisdictions in which we operate could materially and adversely affect our business, financial condition, results of operations and reputation.

***Any failure to comply with anti-money laundering, anti-terrorist financing, “know your customer” and related laws and regulations could damage our reputation or expose us to penalties.***

The policies and procedures we implement to comply with applicable anti-money laundering and anti-terrorist financing laws and regulations and internal policies and procedures, including internal controls and “know your customer” procedures may not be completely effective in preventing third parties from using us as a conduit for money laundering, including illegal cash operations, or terrorist financing without our knowledge. These procedures require the implementation and embedding within our business of effective controls and monitoring, which in turn requires ongoing changes to systems and operational activities. This requires proactive and adaptable responses from us so that we are able to deter threats and criminality effectively. Even known threats can never be fully eliminated, and there may be instances where we could be used by other parties to engage in money laundering and other illegal or improper activities. In addition, we rely heavily on our employees to assist us by identifying and reporting such activities, and our employees have varying degrees of experience in recognizing criminal tactics and understanding the level of sophistication of criminal organizations. If we are unable to apply the necessary scrutiny and oversight, there remains a risk of regulatory breach.

The Superintendency of Banks routinely examines banks to assess compliance with these laws, regulations and policies and procedures, and may issue comments or findings of deficiencies. Following a periodic inspection, as well as a recent examination of aspects of our anti-money laundering procedures, including internal control procedures, customer risk rating and others, relating to the implementation of existing or new regulations affecting all regulated financial institutions in Panama, we responded to certain comments and findings by the Superintendency of Banks. We do not believe that any fines or other sanctions that may result from this examination will be material.

In addition, while we review our relevant counterparties' internal policies and procedures with respect to such matters, to a large degree we rely upon our counterparties to maintain and properly apply their own appropriate compliance measures, procedures, and internal policies. Such measures, procedures and internal policies may not be completely effective in preventing third parties from using our (and our counterparties') services as a conduit for illicit purposes, including illegal cash operations, without our (or our counterparties') knowledge.

If we are associated with money laundering, including illegal cash operations, or terrorist financing, our reputation could suffer and we could become subject to fines, sanctions or legal enforcement, including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with us, which could have a material adverse effect on our business, financial condition and results of operations. Any resulting governmental fines or reputational damage, whether affecting us directly or indirectly through our counterparties, could impact our relationships with rating agencies, creditors, customers and employees and therefore have a materially adverse effect on us.

***As a financial institution, we are subject to reputational risk that could materially affect us.***

Corporate reputation is a crucial competitive advantage for us, as it allows us to attract and retain customers, appeal to investors and avoid employee attrition. Moreover, reputation is a key element in banking since access to funding is driven by the confidence of depositors and the opinion of ratings agencies on the value of our franchise. Therefore, any disreputable event, including employee misconduct, legal proceedings, regulatory sanctions, failure to deliver minimum standards of service quality, failure to comply with regulatory requirements, unethical behavior by our staff or involvement in political issues or public scandals (or rumors related thereto) could damage our reputation and produce significant harm to us. Furthermore, our reputation is highly aligned with the reputation of the banking industry in which we participate and, therefore, actions by other providers of financial services or the banking industry as a whole in Panama and the region could also harm our reputation. Additionally, the reputational damage to our business and brand would be severe if we were found to have breached anti-money laundering, anti-corruption or sanctions requirements. Our reputation could also suffer if we are unable to protect our customers' data or bank products and services from being accessed or used for illegal or improper purposes.

The ability to manage potential conflicts of interest has become an increasingly important factor for our business given our widespread operations in many economic sectors with diverse third parties. Accordingly, the failure to address—or even the perceived failure to address—conflicts of interest could affect the willingness of customers and investors to work with us, or could lead to legal actions against us. Although we continuously improve our corporate governance standards by detecting potential failures and adopting applicable principles and procedures, we cannot assure you that we will not face reputational events in the future that could harm us.

***Our financial results may be negatively affected by changes to accounting standards.***

We report our results and financial position in accordance with IFRS. Changes to IFRS or interpretations thereof may cause our future reported results and financial position to differ from current expectations, or historical results to differ from those previously reported due to the adoption of accounting standards on a retrospective basis. Such changes may also affect our regulatory capital and ratios. We monitor potential accounting changes and when these are finalized by the IASB, we determine the potential impact and disclose significant future changes in our financial statements. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential IFRS changes, some of which could be expected to impact our reported results, financial position and regulatory capital in the future. For example, IFRS 9 – Financial Instruments, when fully adopted, will require us to record loans at inception net of expected losses instead of recording credit losses on an incurred loss basis. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Operating Results—Critical Accounting Policies."

***We rely on third parties to provide certain components of our business infrastructure.***

Third parties provide certain components of our business infrastructure, such as information technology systems, internet connections and network access and other voice or data communication services. Given the high volume of transactions we process on a daily basis, certain errors may be repeated or compounded before they are discovered and successfully rectified. Disruptions in information technology systems, internet, network access or

other voice or data communication services provided by these third parties could adversely affect our ability to deliver products and services to customers and otherwise conduct business.

***We are exposed to operational and infrastructure risks.***

We are exposed to many types of operational risk, including the risk of loss resulting from inadequate or failed internal processes and systems, human error or external events and from fraud or unauthorized transactions by employees, customers and other third parties. Shortcomings or failures in our internal processes, systems or people, including any of our financial, accounting or other data processing systems, could lead to, among other consequences, financial loss and reputational damage. In addition, despite the business impact analysis and contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by us or by third parties with which we conduct business.

***We are subject to cyber-security risk.***

We are subject to cyber-security risk, which includes the unauthorized access to privileged information, technological assaults on our infrastructure with the aim of stealing information, committing fraud or interfering with regular service, and the interruption of our services to some of our clients or users due to the exploitation and materialization of these vulnerabilities. Cyber-security risks for financial institutions have significantly increased because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties.

Our business is highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of service providers, and others with whom we interact.

We have implemented several measures to anticipate, identify, and offset these threats, including perimeter defenses, security backups, special 24/7 teams and continuous security tests (including ethical hacking, among others). However, we can give no assurance that these measures will be effective to prevent or mitigate potential future attacks or threats to our technology infrastructure. Any failure by us to detect or present cyber-security risk in a timely manner could result in a negative impact on our results of operations and financial position, or in problems with information, including data related to customers to be lost, compromised, or to be delivered to our clients with delays or errors.

***Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could adversely affect us.***

Our ability to remain competitive will depend in part on our ability to upgrade our information technology infrastructure on a timely basis, which requires us to make significant investments. Any expansion of our operations will require us to improve our information technology infrastructure, including maintaining and upgrading our software and hardware systems and back-office operations. The information available to and received by our management through our existing information systems may not be timely and sufficient to manage risks as well as to plan for and respond to changes in market conditions and other developments in our operations. In addition, we may experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base. Any failure in our current information technology infrastructure and management information systems or to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could materially and adversely affect us.

***Any delays or failure to implement business initiatives that we may undertake could prevent us from realizing the anticipated revenues and benefits of the initiatives.***

As part of our strategy, we work to offer new or better products and services to our customers. These types of initiatives, or others, may not be fully implemented within the time frame we expect, or at all. In addition, even if

such initiatives are fully implemented, they may not generate revenues as expected. Any delays in implementing these business initiatives could prevent us from realizing the anticipated benefits of the initiatives, which could adversely affect our business, results of operations and growth prospects.

***Our existing insurance coverage may be insufficient and future coverage may be difficult or expensive to obtain.***

Although we believe that our insurance policies provide adequate coverage for the risks inherent in our business, these insurance policies typically exclude certain risks and are subject to certain thresholds and limits. As such, we cannot assure you that our properties, equipment, inventories and other assets will not suffer damages due to unforeseen events or that the proceeds available from our insurance policies will be sufficient to protect us from all possible loss or damage resulting from such events. We renew our insurance policies annually. The cost of coverage may increase to such an extent that we may choose to reduce our policy limits or agree to certain exclusions from our coverage. Among other factors, adverse political developments, security concerns and natural disasters may materially adversely affect available insurance coverage and result in increased premiums. As a result, our insurance coverage may prove to be inadequate for events that may cause significant disruption to our operations, which may have a material adverse effect on us.

***We may be exposed to risks related to litigation and administrative proceedings.***

Our business may expose us to litigation relating to regulatory, tax, labor and administrative proceedings, governmental investigations, tort claims, contract disputes and criminal prosecution, among other matters. In the context of these proceedings, we may not only be required to pay fines or monetary damages but also be subject to complementary sanctions or injunctions affecting our ability to continue our operations. While we expect to contest these matters vigorously and make insurance claims when appropriate, litigation and other proceedings are inherently costly and unpredictable, making it difficult to accurately estimate the outcome of actual or potential litigation or proceedings. Although we may establish provisions as we deem necessary, the amounts that we reserve could vary significantly from any amounts we actually pay due to the inherent uncertainties in the estimation process.

## **Risks Relating to Panama and the Panamanian Banking Industry**

***Panama has no central bank or official lender of last resort, which affects our creditworthiness.***

Panama's economy is dollarized and, accordingly, the Panamanian government has no ability to print paper currency. In addition, there is no government provided prime interest rate, lender of last resort or deposit insurance in Panama. Accordingly, while Panamanian banks are regulated by the Superintendency of Banks, banks located in Panama may be less creditworthy than banks in countries with a central bank that could provide liquidity. This means that Panamanian banks, including us, could face a more difficult recovery from the type of liquidity problems that affected banks in the United States and Europe during the financial crisis.

***We are subject to extensive regulation, supervision and inspection, and changes in existing regulations or the implementation of future regulations may have a material adverse effect on us.***

We are subject to regulation by different regulatory authorities in Panama, including the Superintendency of Banks. We are also subject to regulation by authorities abroad, including the Superintendency of Finance of Colombia (*Superintendencia Financiera de Colombia*), which also has consolidated supervisory authority over us. Such consolidated supervision is carried out through and with the assistance of the Superintendency of Banks.

The Superintendency of Banks has general regulatory and supervisory responsibilities over banks and other financial institutions in Panama, including, but not limited to, the authority to set loan-loss provisions, regulatory capital requirements and other minimum capital adequacy requirements, reserve requirements, liquidity requirements, lending limits, related party transaction and integral risk management rules and internal controls. In addition, banks, such as us, are subject to reporting requirements to provide the Superintendency of Banks with all information that is necessary to allow the Superintendency of Banks to supervise our financial performance and compliance with banking regulations. Changes in such regulatory and supervisory requirements could have a material adverse effect on us.

As a bank operating in Panama, we are also subject to periodic inspections by the Superintendency of Banks, as well as compliance with various regulations regarding our activities, including minimum capital and reserve requirements, the maintenance of minimum risk-based capital levels and loan-loss reserves, regulation of our business practices (including bank fees charged), diversification of our investments, regulation of loan granting policies, application of required accounting regulations, maintenance of liquidity ratios and capital adequacy requirements, limitations on loans to a single entity or related parties, and other credit restrictions, as well as accounting and statistical requirements, all of which limit our operational flexibility. We cannot assure you that Panamanian regulators will not impose more restrictive limitations in the future on the activities of banks than those that are currently in effect or that Panamanian regulators will not change their interpretation of current regulations. Any such change in terms of capital adequacy, liquidity, credit risk provisioning, consumer protection, bankruptcy, taxation, among other matters, could have a material adverse effect on us if we cannot anticipate and respond to those changes in advance.

Late compliance or non-compliance with applicable laws and regulations could result in the imposition of civil, regulatory and criminal penalties that could adversely affect the continued operation of our business, including the loss of required government authorizations, licenses to operate one or more of our locations or to perform certain commercial activities, significant fines or monetary penalties, or closing of our locations as a preventative measure. In addition, changes in these laws and regulations may restrict our existing operations, limit the expansion of our business and require extensive system and operating changes that may be difficult or costly to implement.

We cannot predict whether and to what extent new laws and regulations, or changes to existing laws and regulations affecting our business will be adopted in the future, the timing of any such adoption and what effect such events would have on our business. See “*Supervision and Regulation.*”

***If Panama is added in the future to the Financial Action Task Force’s grey list as a result of strategic anti-money laundering and combating terrorism financing deficiencies, this could result in a material adverse effect on the National Banking System and on us.***

In June 2014, the Financial Action Task Force (FATF), an intergovernmental body developing and promoting policies to combat money laundering and terrorist financing, placed Panama on its list of jurisdictions with strategic deficiencies in its regime for anti-money laundering and combating terrorism financing, also commonly referred to as the “grey list.”

After being placed on the “grey list,” the Panamanian government made a high-level political commitment to work with the FATF and the *Grupo de Acción Financiera de Latinoamérica* to address these deficiencies. Panama passed Law No. 23 on April 27, 2015 to create a regulatory framework for various supervisory agencies, individuals and legal entities to monitor, control, promote and strengthen international cooperation in the prevention of money laundering, financing of terrorism and proliferation of weapons of mass destruction. The law created mechanisms for national coordination by establishing institutions, methodologies, principles and obligations for collecting, receiving and analyzing financial intelligence information, as well as criteria for the imposition of sanctions. Such coordination system is made up of a national commission, a financial intelligence unit and supervisory agencies, which are responsible for defining strategies and policies and implementing regulations under Law No. 23 for both financial and non-financial actors.

On February 19, 2016, the FATF removed Panama from the “grey list” and published a notice acknowledging Panama’s significant progress in improving its regime for anti-money laundering and combating the financing of terrorism. Although the Panamanian government has pledged to continue to work with the FATF to implement legislative and regulatory reforms, we cannot assure you that current or future government administrations will maintain this level of commitment or that such measures will be implemented or, if so implemented, that they will be successful. Such failure or inability to develop, remediate, maintain and promote policies to combat money laundering and terrorist financing activities and deficiencies could result in Panama once again being placed on the grey list, which would adversely impact the economy of Panama or result in a downgrade of Panama’s sovereign debt ratings, among other negative effects, all of which could have a material adverse impact on us.

***Under certain circumstances, the Superintendency of Banks may intervene in certain or all of our operations in order to prevent, control and reduce the effects of a failure of our operations.***

Panamanian banking laws and regulations empower the Superintendency of Banks to seize administrative and operative control of a bank's operations as well as to order the appointment of external advisors, reorganization and forceful liquidation of banks in certain circumstances, including in the case of financial stress, insolvency, weakness on capital and liquidity ratios, unlawful, negligent or fraudulent operations, and when it is deemed necessary to protect the interests of depositors and other creditors.

We believe that we are currently in compliance with material banking laws and regulations and believe that there is no basis for any such action against us. However, the Superintendency of Banks could order any such action against us in the future, which would have a material adverse impact on our operations and results.

***Our ability to make required payments on the Notes may be adversely affected if Panama were to impose exchange controls.***

Since shortly after its independence from Colombia in 1903, Panama has used the U.S. dollar as legal tender and sole paper currency, using the Balboa only as coinage and as a unit of account with an exchange rate set at parity with the U.S. dollar. There are currently no exchange controls or other restrictions imposed by Panamanian law on payments in U.S. dollars by us, and capital moves freely in and out of the country, without local currency risk. However, in the event that foreign exchange or payment restrictions are imposed by the Panamanian government, our ability to repay the Notes could be adversely affected.

***We are exposed to risks that could affect the banking industry in Panama.***

Although recent indicators show that there has been positive growth in the National Banking System, there is no guarantee that such growth will continue with respect to total loans, assets and deposits, nor that, if such growth continues, it will be of the size and nature of the growth seen in recent periods. In addition, any adverse changes to the banking sector, including changes in reserve requirements over loans, reductions in the margins of interest, increases in the levels of default by banks, the levels of non-accruing loans and access to correspondent bank service could have an adverse effect on the industry in general and, thus, over us as well, affecting our ability to repay the Notes.

***The corporate and consumer lending market is affected by macroeconomic changes that may negatively impact income, and a downturn in the economy could result in increased loan-losses.***

Part of our strategy is to continue to grow our Corporate & Government and Retail & SMEs portfolios. As a result, our loan portfolio is vulnerable, and will become increasingly vulnerable as such portfolios grow, to macroeconomic changes that could negatively impact the income of corporate and consumer customers and result in increased loan-losses. Furthermore, there is little basis on which to evaluate how the consumer sector will perform in the event of a significant economic crisis, such as a recession. Consequently, historical loan-loss experience may not be indicative of the performance of our loan portfolio in the future.

***Changes in Panamanian government policies regarding mortgage portfolio subsidies could adversely affect our business, financial condition and results of operations.***

A large part of our mortgage portfolio is subsidized by the Panamanian government. The Panamanian government promotes residential housing loan programs by offering subsidies to borrowers in the local market. Under the current residential housing loan program, we offer mortgage loans with a preferential rate and receive a subsidy from the Panamanian government in the form of a tax credit (which is transferable to third parties) that currently varies from 2.00% to 5.25%, depending on the value of the property. We, and our subsidiaries, use such tax credit to pay income tax. As of June 30, 2017, 33.0% of our mortgage loan portfolio had the benefit of these subsidies from the Panamanian government. Although the Panamanian government has in recent years remained committed to the strategy and policies with respect to subsidies to the residential mortgage business, there can be no

assurance that it will maintain the current strategy and policies or that it will not adopt policies that would negatively affect our profitability and potential growth in the residential mortgage market.

***Minimum capital requirement limits imposed on Panamanian banking institutions may adversely affect us.***

In June 2004, the Basel Committee approved a new framework for risk-based capital adequacy (“Basel II”). Basel II sets out the details for adopting more risk-sensitive minimum capital requirements for financial institutions. The Superintendent of Banks adopted and implemented various guidelines under Basel II through the Banking Law and various regulations.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced changes to the existing capital requirements and endorsed previous agreements on the design of the capital and liquidity reform package (“Basel III”), which was presented at the Seoul G20 Leaders summit in November 2010. As a result of Basel III, the Superintendent of Banks adopted Accord No. 1-2015 and Accord No. 3-2016, which have been effective since July 1, 2016, and it is expected that further regulation will be enacted in order to implement other features of Basel III. Accord No. 1-2015 establishes the capital adequacy requirements applicable to banks and banking groups to implement the Basel III guidelines and Accord No. 3-2016 establishes the capital standards for credit risk applicable to banks according to Basel II and Basel III. In addition, the Superintendent of Banks has indicated its intention to pass new rules and regulations related to market risk and operational risk and hybrid instruments in the future.

The Panamanian banking industry is currently undergoing a process of strengthening its regulation and supervision through the implementation of Basel II and Basel III. As of the date of this offering memorandum, as a General License Bank, we are required to maintain: (i) a Minimum Paid-In Capital (net of losses) of US\$10 million, (ii) a total Regulatory Capital over Risk-Weighted Assets ratio of 8.0%, (iii) a Common Equity Tier I over Risk-Weighted Assets ratio of 4.0%, (iv) a Primary Capital over Risk-Weighted Assets ratio of 5.5% and (v) a Leverage Ratio (Common Equity Tier I over total assets) of 3%. Beginning on each January 1 of 2018 and 2019, General License Banks will be required to progressively increase Common Equity Tier I over Risk-Weighted Assets ratio to 4.25% and 4.50%, respectively. Also, beginning on each of January 1, 2018 and 2019, General License Banks will be required to progressively increase Primary Capital over Risk-Weighted Assets ratio to 5.75% and 6.00%, respectively. The total Regulatory Capital over Risk-Weighted Assets will remain at the current level of 8.0%. See “*Supervision and Regulation—Banking Supervision and Regulation.*” As of June 30, 2017 our paid-in capital was US\$755.1 million, the ratio of our total Regulatory Capital to our Risk-Weighted Assets ratio was 14.5% and the ratio of our total Primary Capital to our Risk-Weighted Assets ratio was 13.1%, and as of December 31, 2016, our paid-in capital was US\$755.1 million, the ratio of our total Regulatory Capital to our Risk-Weighted Assets ratio was 14.4% and the ratio of our total Primary Capital to our Risk-Weighted Assets ratio was 12.9%.

While our management believes that we have enough flexibility to comply with any heightened requirements that may be introduced by the Superintendent of Banks as a result of its implementation of Basel III, any changes in capital adequacy regulations may limit our credit operations and our ability to dispose of assets and/or take other measures, which may adversely affect our business, financial condition and results of operation.

***Information on financial records and offshore structures and holdings published as the “Panama Papers” could adversely affect our business.***

In May 2016, the journalist association International Consortium of Investigation Journalism published the “Panama Papers,” which is a collection of over 11.5 million records that include financial information and information on offshore structures and holdings on more than 214,000 offshore entities connected to more than 200 countries and territories. The “Panama Papers” have adversely affected Panama’s reputation. The Panamanian government has taken actions since the publication of the “Panama Papers” to cooperate with the international community and has reinforced its commitment to the Common Reporting Standards. We have conducted an internal review of our business and customers as it relates to the “Panama Papers.” While the publication of the “Panama Papers” has to date not materially adversely affected our financial results, the “Panama Papers” and other similar publications may have a material adverse effect on our business, reputation, financial position or results of operations or the course of our operations more generally.

***The occurrence of natural disasters in Panama could impair our ability to conduct business effectively or could affect the business of our customers, and could impact our results of operations.***

We are exposed to the risk of natural disasters, such as earthquakes, floods, volcanic eruptions, tornadoes and wind that can affect us or our customers. In the event of a natural disaster, unanticipated problems with our disaster recovery systems could have a material adverse effect on our ability to conduct business in the affected region, particularly if those problems affect our computer-based data processing, transmission, storage and retrieval systems and destroy valuable data. In addition, if a significant number of our local employees and managers were unavailable in the event of a disaster, our ability to effectively conduct business could be severely compromised. A natural disaster or multiple catastrophic events could have a material adverse effect on our business and results of operations in the affected region. Also, if one or several of our customers were exposed to natural disasters, their business or source of income could be affected, and thus their ability to timely comply with their loan terms can be impaired, affecting our results of operations.

### **Risks Relating to the Notes**

***An active trading market for the Notes may not develop.***

Currently there is no market for the Notes. Application will be made for the listing and quotation of the Notes on the SGX-ST. Even if the Notes become listed on this exchange, we may delist the Notes. A trading market for the Notes may not develop, or, if a market for the Notes were to develop, the Notes may trade at a discount from their initial offering price, depending upon many factors, including prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. The Initial Purchasers are not under any obligation to make a market with respect to the Notes, and we cannot assure you that trading markets will develop or be maintained. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the Notes. If an active market for the Notes does not develop or is interrupted, the market price and liquidity of the Notes may be adversely affected.

***The price of the Notes may be highly volatile.***

The price at which the Notes may trade will depend on many factors, including, but not limited to, prevailing interest rates, general economic conditions, our performance and financial results and markets for similar securities. Historically, the markets for debt such as the Notes have been subject to disruptions that have caused substantial volatility in their prices. The market, if any, for the Notes may be subject to similar disruptions, which may have an adverse effect on the holders of the Notes.

***There are restrictions on your ability to transfer the Notes.***

The Notes have not been registered under the Securities Act or any state securities laws, and we are not required to and currently do not plan to make any such registration in the immediate future. As a result, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Prospective investors should be aware that investors may be required to bear the financial risks of this investment for an indefinite period of time. See “*Transfer Restrictions*” for a full explanation of such restrictions. Consequently, a holder of Notes and an owner of beneficial interests in those Notes must be able to bear the economic risk of their investments in the Notes for the term of the Notes.

***We cannot assure you that the credit ratings for the Notes will not be lowered, suspended or withdrawn by the rating agencies.***

The credit ratings of the Notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but, rather, reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies if, in the judgment

of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the Notes.

***Developments in other countries may adversely affect the market value of the Notes.***

The market price of the Notes may be adversely affected by developments in the international financial markets and world economic conditions. Although economic conditions are different in each country, investor reaction to the developments in one country may affect the securities of issuers in other countries, including Panama. Specifically, a recession or economic slowdown in the United States may adversely affect the Panamanian economy. We cannot assure you that the market for the securities of Panamanian issuers will not be affected negatively by events elsewhere or that such developments will not have a negative impact on the market value of the Notes.

***Different disclosure requirements in Panama and the United States and other countries may provide you with different or less information about us than you expect.***

Securities disclosure requirements in Panama differ from those applicable in the United States. Accordingly, the information about us that is available to you may not be the same as the information available to security holders of a U.S. company. There may be less publicly available information about us than is regularly published about companies in the U.S. and certain other jurisdictions. We are not subject to the periodic reporting requirements of the Exchange Act and, therefore, are not required to comply with the information disclosure requirements that it imposes.

***Payments on the Notes will be effectively junior to any of our secured indebtedness and structurally junior to the debt obligations of our subsidiaries.***

The Notes will constitute our general unsecured obligations and will rank equally in right of payment with all our other existing and future unsecured and unsubordinated indebtedness, subject to certain obligations that are preferred by statute. Although the holders of the Notes will have a direct, but unsecured, claim on our assets and property, payment on the Notes will be subordinated in right of payment to any existing or future secured debt, to the extent of the assets securing such debt. Payment by us in respect of the Notes will also be structurally subordinated to the payment of secured and unsecured debt and other creditors of our subsidiaries. If we become insolvent or are forcefully liquidated, or if payment under any secured debt is accelerated, the relevant lenders would be entitled to exercise the remedies available to a secured lender. Accordingly, any proceeds from a realization of the collateral would be applied first to amounts due under the secured debt obligations before any proceeds would be available to make payments on the Notes. After such application of the proceeds from collateral, it is possible that there would be no assets remaining from which claims of the holders of the Notes could be satisfied. Further, if any assets remain after payment of these lenders, the remaining assets would be available, firstly, to creditors preferred by statute, such as taxes, labor creditors, social security creditors or deposits of US\$10,000 or less, and might be insufficient to satisfy the claims of the holders of the Notes and holders of other unsecured debt including trade creditors that rank equal to holders of the Notes. As of June 30, 2017 we had secured indebtedness totaling US\$39.0 million, and our subsidiaries had total debt of US\$191.0 million, including intercompany debt.

***Enforcing your rights as a holder of Notes in Panama may prove difficult.***

Your rights under the Notes will be subject to the intervention, reorganization and/or compulsory liquidation proceedings carried out by the Superintendency of Banks under the Banking Law, and we cannot assure that you will be able to effectively enforce your rights in such compulsory liquidation, insolvency or similar proceedings. In addition, intervention, reorganization and/or compulsory liquidation proceedings carried out by the Superintendency of Banks may be materially different from, or in conflict with, each other, including in the areas of rights of creditors, priority of government entities and related party creditors, and the ability to obtain loans or to pay interest. The application of these laws, or any conflict among them, could call into question what and how Panamanian laws should apply. The laws of Panama may not be as favorable to your interests as the laws of jurisdictions with which you are familiar. Such issues may adversely affect your ability to enforce your rights under the Notes in Panama, as the case may be, or limit any amounts that you may receive.

While the Banking Law treats senior unsecured indebtedness issued at different times as *pari passu* in accordance with the terms of that indebtedness, the civil code treats previously issued senior unsecured indebtedness as senior to any new senior unsecured indebtedness. While we expect that a court would treat all of our senior unsecured indebtedness as *pari passu* in accordance with the Banking Law, we cannot assure you that a court would not apply the civil code, which would make all our senior unsecured debt issued prior to the Notes senior to the Notes. Furthermore, our local creditors (particularly our creditors of indebtedness represented by negotiable instruments or other instruments governed by Panamanian law that grant rights to executory proceedings, the Panamanian tax administration, and other governmental entities and municipalities) are in a better position than holders of the Notes to obtain pre-judgment attachment of our assets from a Panamanian court. If our assets are attached by any of these creditors, creditors benefitting from the attachment will have priority against other creditors (including holders of the Notes) over the assets attached.

Because we are a General License Bank, in accordance with the Banking Law, in case of an attachment, embargo or any other injunction in Panama against assets owned by us, the Court shall provide the relevant order to the Superintendency of Banks before its execution. The Superintendency of Banks shall then have 30 days to make the proper arrangements in accordance with the provisions of the Banking Law. If the Superintendency of Banks makes no arrangement or does not take any measures within this period, the judge will continue with the execution of the respective resolution as provided for in the judicial code of Panama, without prejudice to the powers that the Banking Law grants to the Superintendency of Banks.

***We are permitted to incur additional indebtedness ranking equally with the Notes.***

The Indenture will not contain any restrictions on the amount of additional indebtedness that may be incurred by us or our subsidiaries, except that under the note purchase agreement, we have agreed not to, for a period of 60 days following the Closing Date, issue other debt securities, without the prior written consent of the representatives of the Initial Purchasers. If we incur any additional unsecured debt that ranks equally with the Notes, the holders of that debt will be entitled to share with the holders of the Notes in any proceeds distributed in connection with an intervention, insolvency, liquidation, reorganization, dissolution or other winding-up of us subject to satisfaction of certain debt limitations. This may have the effect of reducing the amount of proceeds paid to you under such an event. The Indenture does not require us to make payments under the Notes ratably with payments being made under any other obligations.

***The ability of investors to enforce civil liabilities under U.S. securities laws may be limited.***

None of our directors or executive officers are domiciled in the United States. All or a substantial portion of our assets and those of our directors and executive officers are located outside of the United States. As a result, it may not be possible for investors in our securities to effect service of process within the United States upon such persons or to enforce judgments of U.S. courts against them or our company, including in any action based on civil liabilities under the U.S. federal securities laws. There is uncertainty as to the enforceability against such persons in Panama, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws or state laws. There is no existing treaty between the U.S. and Panama for the reciprocal enforcement of foreign judgments. It is not clear whether a foreign court would accept jurisdiction and impose civil liability if proceedings were commenced in a foreign jurisdiction predicated solely upon U.S. federal securities laws. See “*Enforcement of Judgments.*”

***The perception of higher risk in other countries, especially in emerging economies, may adversely affect the Panamanian economy, our business and the market price of Panamanian securities issued by Panamanian issuers, including the Notes.***

The market price of the Notes may be adversely affected by developments in the international financial markets and world economic conditions. Panamanian securities markets are influenced, to varying degrees, by economic and market conditions in other countries, especially those in Latin America and other emerging markets. Emerging markets like Panama are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt business in Panama and adversely affect the price of the Notes. Moreover, financial turmoil in any important emerging market country may adversely affect prices in stock markets and prices for debt securities of issuers in other emerging market countries as investors move their money to more stable,

developed markets. An increase in the perceived risks associated with investing in emerging markets could dampen capital flows to Panama and adversely affect the Panamanian economy in general, and the interest of investors in the Notes, particularly in Panama. We cannot assure you that the value of the Notes will not be negatively affected by events in other emerging markets or the global economy in general.

***You may be subject to withholding for Panamanian capital gains taxes upon a sale of the Notes, for which we will not indemnify you.***

Capital gains realized on the sale or other dispositions of the Notes by a Foreign Holder (see “*Taxation*”) are not subject to income or capital gains tax in Panama if the transfer and delivery of the Notes, and the payment thereof, occur outside of Panama (a “Foreign Transaction”). If the sale or other disposition of the Notes does not qualify as a Foreign Transaction, or is made by a Local Holder (see “*Taxation*”), capital gains realized in connection therewith are subject to 10% income tax on capital gain, *provided* that the buyer is obligated to withhold 5% of the purchase price and tender such amount to the tax authorities within the following 10 business days, as an advance on the seller’s capital gains tax payment. Nevertheless, at seller’s option, the amount withheld will satisfy the tax obligation even if it is less than 10% of the capital gain. If the amount withheld exceeds 10% of the capital gain, the seller has the option to file a tax return and claim a tax credit or a refund of such excess. See “*Taxation—Panamanian Tax Considerations—Taxation of Dispositions.*”

## USE OF PROCEEDS

The gross proceeds from the issuance of the Notes offered hereby are estimated to be approximately US\$ 498,890,000 million. We intend to use the proceeds from the offering of the Notes to pay transaction-related expenses, including fees and commissions payable to the Initial Purchasers, and for general corporate purposes, which may include working capital, funding the growth of our loan portfolio, the offering of new products and services and repayment of outstanding indebtedness, including debt owed to affiliates of the Initial Purchasers. See “*Plan of Distribution.*”

## CAPITALIZATION

The following table sets forth our short-term debt, long-term debt and stockholders' equity as of June 30, 2017:

- on an actual historical basis; and
- as adjusted to reflect the offering of the Notes and the application of the proceeds from such offering.

This table should be read in conjunction with the information contained in the sections “Selected Consolidated Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	As of June 30, 2017	
	Actual	As adjusted for this transaction
	<i>(Amounts in US\$ millions)</i>	
<b>Short-term debt and deposits<sup>(1)</sup></b>		
Current account deposits.....	1,272.0	1,272.0
Savings account deposits.....	1,551.6	1,551.6
Interbank time deposits.....	102.2	102.2
Borrowings <sup>(2)</sup> .....	912.5	509.7
Time deposits.....	1,951.9	1,951.9
<b>Total short-term</b> .....	<b>5,790.2</b>	<b>5,387.4</b>
<b>Long-term debt and deposits<sup>(3)</sup></b>		
Time deposits.....	1,559.7	1,559.7
Interbank time deposits.....	446.0	446.0
Borrowings.....	280.8	280.8
Notes issued hereby <sup>(4)</sup> .....	—	500.0
<b>Total long-term</b> .....	<b>2,286.5</b>	<b>2,786.5</b>
<b>Total funding</b> .....	<b>8,076.7</b>	<b>8,173.9</b>
Paid-in capital stock.....	755.1	755.1
Capital reserve, accumulated results and unearned equity...	293.5	293.5
<b>Total equity</b> .....	<b>1,048.6</b>	<b>1,048.6</b>
<b>Total funding and equity</b> .....	<b>9,125.3</b>	<b>9,222.5</b>
<b>Short-term funds as percentage of total funding</b> .....	<b>71.7%</b>	<b>65.9%</b>
<b>Long-term funds as percentage of total funding and equity</b> .....	<b>25.1%</b>	<b>30.2%</b>

<sup>(1)</sup> Short-term debt and deposits includes liabilities with a remaining term of up to one year, inclusive.

<sup>(2)</sup> As adjusted column reflects application of US\$402.8 million in proceeds from the offering of the Notes to repay outstanding borrowings, including principal and accrued interest as of June 30, 2017, under our syndicated credit agreement, including debt owed to affiliates of the Initial Purchasers. See “*Plan of Distribution*.” Such repayment is scheduled to be made on or about October 6, 2017.

<sup>(3)</sup> Long-term debt and deposits includes liabilities with a remaining term of over one year. There has been no material change in the capitalization of the Bank from June 30, 2017 to the date of this offering memorandum.

<sup>(4)</sup> Reflects the aggregate principal amount of the Notes.

## SELECTED HISTORICAL FINANCIAL INFORMATION

The following tables present selected historical financial information as of and for each of the periods indicated. The financial information as of and for the fiscal years ended December 31, 2016, 2015 and 2014 has been derived from our Audited Financial Statements. The financial information as of June 30, 2017 and for the six-month periods ended June 30, 2017 and 2016 has been derived from our Unaudited Financial Statements. The unaudited financial information as of and for the six-month periods ended June 30, 2017 and 2016 includes all adjustments, consisting of only normal recurring adjustments, which in the opinion of management are necessary for the fair presentation of such information. Interim results are not necessarily indicative of the results to be expected for the entire fiscal year. Our consolidated Audited Financial Statements for each period were prepared in accordance with IFRS as issued by the IASB and our Unaudited Financial Statements for each period were prepared in accordance with IAS 34.

The selected historical financial information presented below should be read in conjunction with “Presentation of Certain Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Financial Statements included elsewhere in this offering memorandum.

### Selected Statement of Profit or Loss Information

	<b>Banistmo and Subsidiaries</b>		<i>Percentage Change %</i>
	<b>For the six months ended June 30,</b>		
	<b>2017</b>	<b>2016</b>	
	<i>(Amounts in US\$ millions)</i>		
<b>Consolidated Statement of Profit or Loss</b>			
Total interest and commission income.....	247.5	222.2	11.4%
Total interest expense .....	88.0	73.2	20.3%
<b>Net interest and commission income, before provisions</b> .....	<b>159.5</b>	<b>149.0</b>	<b>7.0%</b>
Provision for impairment of financial assets .....	49.8	40.6	22.7%
<b>Net interest and commission income, after provisions</b> .....	<b>109.7</b>	<b>108.4</b>	<b>1.2%</b>
Total income from banking and other services, net .....	43.1	27.0	59.6%
Total general and administrative expenses.....	99.4	98.8	0.6%
<b>Profit before income tax and discontinued operations</b> .....	<b>53.4</b>	<b>36.6</b>	<b>45.9%</b>
Income tax expense.....	11.7	4.5	159.2%
<b>Profit for the period from continuing operations</b> .....	<b>41.6</b>	<b>32.1</b>	<b>29.9%</b>
<b>Net profit for the period</b> .....	<b>41.6</b>	<b>32.1</b>	<b>29.9%</b>

	<b>Banistmo and Subsidiaries</b>			<i>Percentage Change %</i>	<i>Percentage Change %</i>
	<b>For the year ended December 31,</b>				
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2015-2016</b>	<b>2014-2015</b>
	<i>(Amounts in US\$ millions)</i>				
<b>Consolidated Statement of Profit or Loss</b>					
Total interest and commission income.....	456.5	412.8	385.7	10.6%	7.0%
Total interest expense .....	155.4	134.8	129.3	15.3%	4.3%
<b>Net interest and commission income, before provisions</b> .....	<b>301.1</b>	<b>278.0</b>	<b>256.4</b>	<b>8.3%</b>	<b>8.4%</b>
Provision for impairment of financial assets .....	101.9	40.4	38.9	152.5%	3.9%
<b>Net interest and commission income, after provisions</b> .....	<b>199.1</b>	<b>237.6</b>	<b>217.5</b>	<b>(16.2%)</b>	<b>9.2%</b>
Total income from banking and other services, net .....	57.8	46.8	50.5	23.6%	(7.3%)
Total general and administrative expenses.....	212.2	199.4	190.2	6.4%	4.8%
<b>Profit before income tax and discontinued operations</b> .....	<b>44.8</b>	<b>85.0</b>	<b>77.8</b>	<b>(47.3%)</b>	<b>9.3%</b>
Income tax expense.....	(1.0)	15.0	16.5	(106.9%)	(9.1%)
<b>Profit for the year from continuing operations</b> .....	<b>45.8</b>	<b>70.0</b>	<b>61.3</b>	<b>(34.5%)</b>	<b>14.2%</b>
Profit for the year from discontinued operations, net of income tax .....	0.0	24.7	15.5	(100.0%)	59.4%
<b>Net profit for the year</b> .....	<b>45.8</b>	<b>94.7</b>	<b>76.8</b>	<b>(51.6%)</b>	<b>23.3%</b>

## Selected Balance Sheet Information

	<b>Banistmo and Subsidiaries</b>				
	<b>As of June 30,</b>		<b>As of December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(Amounts in US\$ millions)</i>				
<b>Assets</b>					
Cash and cash effects .....	120.5	145.0	203.9	224.2	123.0
Total deposits in financial institutions .....	735.7	773.2	741.5	722.7	893.9
Total cash, cash effects and deposits .....	856.2	918.2	945.4	946.9	1,016.9
Investments in securities .....	760.3	687.9	735.3	870.5	760.5
Gross loans .....	7,604.5	7,153.8	7,326.7	6,866.5	6,310.0
Interest receivable .....	26.6	27.6	34.1	27.7	23.5
Less:					
Allowance for impairment .....	141.4	91.0	122.1	66.3	62.5
Unearned and discounted interest and commissions .....	99.6	86.6	95.0	73.6	62.2
Loans, net .....	7,390.1	7,003.8	7,143.7	6,754.3	6,208.8
Other assets .....	348.3	353.7	349.6	349.2	326.1
Total assets .....	<u>9,354.9</u>	<u>8,963.6</u>	<u>9,174.1</u>	<u>8,920.9</u>	<u>8,312.2</u>
<b>Liabilities and Equity</b>					
<b>Liabilities</b>					
Customers' deposits .....	6,335.1	6,012.3	6,321.3	6,251.6	5,930.9
Interbank deposits .....	548.2	429.5	399.2	352.6	172.6
Total customers' and interbank deposits .....	6,883.3	6,441.8	6,720.5	6,604.2	6,103.5
Borrowings .....	1,193.3	1,238.5	1,184.8	1,093.1	1,024.1
Other liabilities .....	229.7	306.8	261.1	275.8	306.8
Total liabilities .....	8,306.3	7,987.2	8,166.4	7,973.2	7,434.4
Total equity .....	1,048.6	976.4	1,007.7	947.8	877.8
Total liabilities and equity .....	<u>9,354.9</u>	<u>8,963.6</u>	<u>9,174.1</u>	<u>8,920.9</u>	<u>8,312.2</u>

## Other Financial Data and Ratios

The selected financial data and ratios presented below have been derived from and should be read in conjunction with our Financial Statements and other financial information contained elsewhere in this offering memorandum.

	<b>June 30,</b>		<b>December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(in percentages or US\$ millions)</i>				
<b>Profitability and Efficiency</b>					
Return on average total assets .....	0.9%	0.7%	0.5%	1.1%	0.9%
Return on average stockholders' equity .....	8.1%	6.6%	4.6%	10.4%	9.0%
Net interest margin .....	3.0%	2.9%	3.0%	2.8%	2.6%
Efficiency ratio <sup>(1)</sup> .....	49.1%	56.2%	59.1%	61.4%	62.0%
Administrative expenses/average total assets .....	2.2%	2.2%	2.3%	2.3%	2.3%
<b>Regulatory Liquidity Ratio<sup>(2)</sup> (period end)</b>					
Average .....	47.4%	47.5%	48.3%	45.5%	46.2%
High .....	49.8%	49.6%	51.3%	48.8%	52.8%
Low .....	45.8%	46.2%	46.2%	41.1%	41.3%
<b>Risk-Based Capital (period end)</b>					
Stockholders' equity as a percentage of total assets <sup>(3)</sup> .....	11.2%	10.9%	11.0%	10.6%	10.6%
Primary Capital .....	839.6	903.1	802.9	877.5	759.5
Regulatory Capital .....	934.7	903.1	895.8	877.5	759.5
Risk-Weighted Assets .....	6,429.1	6,153.6	6,221.2	6,164.9	5,592.4
Primary Capital to Risk-Weighted Assets Ratio .....	13.1%	14.7%	12.9%	14.2%	13.6%
Regulatory Capital to Risk-Weighted Assets Ratio <sup>(4)</sup> .....	14.5%	14.7%	14.4%	14.2%	13.6%

	June 30,		December 31,		
	2017	2016	2016	2015	2014
	<i>(in percentages or US\$ millions)</i>				
Excess of Total Net Capital over minimum capital requirement.....	420.4	410.8	398.1	384.3	312.1

- (1) Total general and administrative expenses for the period divided by the sum of Total interest and commission income minus Total interest expense plus Total income from banking and other services, net for the same period.
- (2) The required minimum Regulatory Liquidity Ratio was 30% for each period presented.
- (3) Refers to the end-of-period stockholders' equity divided by the end-of-period total assets.
- (4) The required minimum Regulatory Capital to Risk-Weighted Assets Ratio for Banistmo was 8% for each period presented.

### Credit Quality Data

	As of June 30,		As of December 31,		
	2017	2016	2016	2015	2014
	<i>(in percentages or US\$ millions)</i>				
Total performing loans <sup>(1)</sup> .....	7,335.1	6,939.7	7,111.7	6,697.7	6,167.6
Total NPLs <sup>(2)</sup> .....	196.4	155.1	154.2	123.0	103.7
NPLs/total performing loans.....	2.7 %	2.2%	2.2%	1.8%	1.7%
Allowance for loan-losses.....	141.4	91.0	122.1	66.3	62.5
Allowance for loan-losses as a percentage of total loans <sup>(3)</sup> .....	1.9%	1.3%	1.7%	1.0%	1.0%
Coverage ratio <sup>(4)</sup> .....	72.0%	58.7%	79.2%	53.9%	60.3%
Coverage ratio plus Dynamic Reserve .....	120.4%	118.5%	139.4%	125.9%	131.4%
NPL Ratio <sup>(5)</sup> .....	2.6%	2.2%	2.1%	1.8%	1.7%
Write-offs/loans <sup>(6)</sup> .....	0.5%	0.3%	0.8%	0.7%	0.7%

- (1) Performing loans refers to credits with 0 to 90 days past due.
- (2) Non-performing loans (NPL) refers to credits with 90 days or more past due.
- (3) Refers to the end-of-period allowance for loan-losses divided by the end-of-period total loans.
- (4) Refers to the end-of-period allowance for loan-losses divided by the end-of-period NPLs.
- (5) NPLs for the period divided by total loans for the period.
- (6) Write-offs for the period divided by average gross loans for the same period.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with the Financial Statements and Notes thereto included elsewhere in this offering memorandum. The Audited Financial Statements have been prepared in accordance with IFRS and the Unaudited Financial Statements have been prepared in accordance with IAS 34. See "Presentation of Certain Financial and Other Information." The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Forward-Looking Statements" and "Risk Factors."*

### Overview

We are a full service commercial bank offering a wide range of financial services and products. We serve over 575,000 customers through our two core business lines: Corporate & Government Banking and Retail & SMEs (servicing small and medium-sized enterprises). As of December 31, 2016, we were Panama's second-largest privately-owned financial institution, holding 10.8% of total outstanding loans and 12.0% of total customers' deposits.

We have an extensive nationwide network, with a presence in all ten Panamanian provinces. We distribute our products and services through one of the broadest networks in the country, which has grown from 359 service points as of December 31, 2014 to 510 service points at June 30, 2017, principally due to the expansion of our ATMs and non-banking agents. As of June 30, 2017, our network included 327 ATMs, 132 non-banking agents and 51 branch offices. Our network also includes a corporate headquarters, our virtual branches ("Sucursal Virtual Personas," for Retail & SMEs and "Conexión Empresarial," for Corporate & Government), our mobile app ("App Banistmo"), call centers, a digital messaging platform, our digital marketing through Twitter, Facebook and Instagram, a representative office in Guatemala and a marketing office in Colombia.

### Factors Affecting Operating Results

Our results of operations have been influenced and will continue to be influenced by these key factors:

#### *Economic Environment in Panama*

Panama, a country with a population of nearly 4 million, has experienced some of the most significant economic growth in Latin America in the last several years. Panama had a nominal GDP of US\$55,188 million in 2016. According to the INEC, real GDP rose 6.2% during the first quarter of 2017 as compared to the same period of 2016. Quarterly real GDP (valued at prices from 2007), totaled US\$9,580 million for the first quarter of 2017, which represents an increase of US\$559 million as compared to the same quarter in 2016. Panama had nominal GDP growth of 9.2% in 2012, 6.6% in 2013, 6.1% in 2014, 5.8% in 2015 and 4.9% in 2016, which is significantly above the regional average for each of those periods. Nominal GDP per capita has increased from US\$10,590 in 2012 to US\$13,680 in 2016.

Panama's international monetary reserves, as published by World Bank Data, were approximately US\$2,848 million as of December 31, 2013, US\$4,032 million as of December 31, 2014, US\$3,378 million as of December 31, 2015 and US\$3,847 million as of December 31, 2016. Inflation, which has remained relatively low over the past five years was 5.7% for 2012, 4.0% for 2013, 2.6% for 2014, 0.2% for 2015 and 0.7% for 2016. Unemployment rates over the past five years have also been steady, at 4.1% as of December 31, 2012, 4.1% as of December 31, 2013, 4.8% as of December 31, 2014, 5.1% as of December 31, 2015 and 5.5% as of December 31, 2016. These strong macroeconomic indices have attracted various multinationals to open offices in Panama.

The Panamanian economy is small and largely focused on the services sector, which represents approximately 76% of the country's GDP as of December 31, 2016. A significant portion of Panama's economic activity is linked directly or indirectly to the recently-expanded Panama Canal, shipping and port activities, a large free trade zone, an international banking center, construction and tourism services. However, no single industry

dominates the Panamanian economy. The leading industries in terms of contribution to GDP for 2016 were trade (17%), construction (16%) and real estate (15%). Among the sectors that have shown significant increases in the first quarter of 2017 (the latest quarter for which information is available) compared with first quarter 2016 are the transport, storage and communications sector (up 10.4%), commerce, including retail and wholesale, sector (up 9.5%) and the construction sector (up 6.6%). The financial sector accounted for 7.9% of GDP in 2016 and grew by 3.7% percent in the first quarter of 2017 as compared to the first quarter of 2016. Panama has a healthy, well-capitalized and profitable banking sector. Total loans by privately-owned financial institutions grew by 4.7% and total deposits grew by 3.6% during 2016.

Panama is an open economy and has signed free trade agreements with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Canada, Chile, Peru, Mexico, Singapore and Taiwan. China is Panama's most important trade partner when measured by imports, accounting for approximately 9.2% of total imports in 2016, followed by Colombia (5.7%) and Costa Rica (3.4%), whereas the United States of America is the most important trade partner when measured by exports, accounting for 20.3% of total exports, followed by the Netherlands (15.2%) and Costa Rica (6.0%).

Panama's exports consist primarily of bananas/plantains and crustaceans, which represented 30.2% and 3.5%, respectively, of total exports in 2016. Imports consist primarily of petroleum oils and vehicles, which represented 14.0% and 11.0%, respectively, of total imports in 2016.

Foreign direct investment has increased steadily in recent years at a compounded growth average rate of 13.5%, from US\$3,567 million in 2013 to US\$5,209 million in 2016, being Colombia and the United States the countries providing for most inflows on average from 2013 to 2015.

#### ***Effects of Changes in Interest Rates***

Interest rate fluctuations in Panama affect our interest income and interest expense. Changes in market interest rates may lead to temporary gaps between our interest-earning assets and our interest-bearing liabilities. A portion of our interest-earning assets (31.5% at June 30, 2017) carry floating interest rates, which are subject to adjustment depending on market conditions. Adjustments to the interest rates we charge and pay on our interest-earning assets and interest-bearing liabilities are continuously analyzed by our Assets, Liabilities and Capital Management Committee. The interest rate adjustments on our loans generally mitigate, but do not entirely eliminate, the effects of fluctuations in interest rates on our net interest margin. In general, we seek to manage our mix of assets and liabilities so that our net interest margin increases as market interest rates increase.

The average interest rate on loans for the National Banking System (as defined below) saw an upward trend in 2016, reaching an average of 5.8% for 2016, compared with 5.7% for 2015 and 5.7% for 2014. The average interest rate of our loan portfolio was 6.1% as of December 31, 2016, 5.8% as of December 31, 2015, 6.0% as of December 31, 2014 and 6.4% as of June 30, 2017, in line with broader trends in the National Banking System. Our average cost of deposits increased to 2.1% per annum for the first six months of 2017, from 1.9% per annum in 2016, 1.8% per annum in 2015 and 1.8% per annum in 2014. Our average cost of deposits for the years 2016, 2015 and 2014 remains below the average cost of deposits for the National Banking System. See "*The Panamanian Banking System*."

#### ***Effect of Competition in the Panamanian Banking System.***

The Panamanian banking system is highly competitive. As of December 31, 2016, 91 banks located in Panama formed the International Banking Center. Within the International Banking Center, there are two segments known as the National Banking System and the International Banking System. The National Banking System comprises those banks that, like us, possess a general banking license, whereas the International Banking System is formed by banks that possess international licenses and representation offices.

The National Banking System had 48 financial institutions as of December 31, 2016, of which 29, including Banistmo, were privately held, international banks, 17 were private, locally-owned banks and two were

state-owned banks (Banco Nacional de Panamá and Caja de Ahorros). The International Banking System had 43 banks.

Based on information provided by the Superintendency of Banks, the top five competitors within the National Banking System represent approximately 50% of the market. Because of the market structure, none of the banks has a dominant position. Banco General and Banistmo are the two largest privately-owned banks in the National Banking System. As of December 31, 2016, their combined market share was 23.8% of total assets, 25.9% of total loans and 32.6% of total deposits. For more information on the Panamanian Banking system, see “*The Panamanian Banking System*.”

### ***Critical Accounting Policies***

Our Financial Statements have been prepared in accordance with IFRS and IAS 34.

The remainder of this section describes some of the key accounting policies used to prepare our financial statements. Application of these significant accounting policies requires extensive use of estimation or the exercise of considerable judgments, some of which may be subjective. For a further description of our accounting policies, see note 2 to our audited financial statements as of and for the year ended December 31, 2016 and our unaudited financial statements for the six months ended June 30, 2017 included as part of this offering memorandum.

### ***Consolidated Financial Statements***

We consolidate our Financial Statements with the financial statements of the entities we control from the date on which control is transferred to us. We determine whether we control an entity based on several factors, including the consolidated group’s (a) power over the relevant entity (which may exist even when we have less than a majority of the voting rights of an entity, based on a number of factors such as the relative size and percentage of our voting rights, rights from contractual agreements and other facts and circumstances), (b) exposure or right to variable returns arising from participation in such entity and (c) ability to use its power over such entity to influence its yield amounts. We reassess that determination as the facts and circumstances may warrant. We use the acquisition method to account for business combinations.

We refer to entities we control as “subsidiaries” pursuant to Article 3 of the Banking Law. All significant accounts and intercompany operations have been eliminated in order to prepare consolidated financial statements. For a further description of our accounting policies relating to consolidation, see note 2 to our audited financial statements as of and for the year ended December 31, 2016 and our unaudited financial statements for the six months ended June 30, 2017 included as part of this offering memorandum.

### ***Accounting Estimates Used in Preparing Financial Statements***

The preparation of Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results could differ from these estimates.

### ***Investments in Securities***

Investments in securities are classified on their trade date, are initially measured at fair value and are subsequently accounted for based on their classifications, which are determined according to their characteristics and the purpose for their acquisition. We use the following classifications:

- Securities at fair value through profit or loss: This category includes those securities acquired for the purpose of generating a short-term gain due to fluctuations in the price of the instrument. These amounts are stated at fair value and changes in fair value are recognized in the consolidated statement of profit or loss in the net profit (loss) account in securities and derivatives in the period in which they are generated.

- Securities available for sale: This category includes securities acquired with the intention of holding them for an undetermined period, which may be sold in response to needs for liquidity, changes in interest rates, currency exchange rates or prices of investments. These securities are measured at their fair value and the changes in value are recognized directly in the consolidated statement of comprehensive income using a valuation account until the securities are sold or redeemed or it has been determined that a security has been impaired; in these cases, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the consolidated statement of profit or loss. Gains or losses on foreign exchange originated by securities available for sale are recognized in the consolidated statement of profit or loss under net loss on securities and derivatives account. When the fair value of investments in equity instruments cannot be measured reliably, such investments remain valued at cost. Dividends on equity instruments available for sale are recognized in the statement of profit or loss when the entity's right to receive payment is established.

At the date of each consolidated statement of financial position, we assess whether there is objective evidence that investment securities classified as available for sale are impaired (which, in the case of equity securities, includes a significant or prolonged decline in fair value). Any impairment would result in a deduction from equity and would be recognized in the consolidated statement of profit or loss, and any impairment previously so recognized may in some cases be reversed.

- Securities held to maturity: This category includes investments acquired for the purpose of being held to maturity. These investments consist primarily of debt instruments, which are presented on the basis of amortized cost. If the Bank sells a significant amount of its securities classified as held for maturity, the entire category must be reclassified as available for sale. Investment instruments classified as held to maturity are periodically evaluated for impairment, both individually, with respect to specific instruments, and collectively, with respect to groups of instruments with similar risk characteristics. Any impairment would be recognized in the consolidated statement of profit or loss. In certain cases where the characteristics of an investment have changed significantly, including certain cases when an investment has been renegotiated, we may treat the original investment as having expired and recognize a new financial asset in its place at fair value.

The fair value of an investment in securities is generally determined based on the market price quoted on the date of the consolidated statement of financial position. If a reliable quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

For a further description of our accounting policies relating to investments in securities, see note 2 to our audited financial statements as of and for the year ended December 31, 2016 and our unaudited financial statements for the six months ended June 30, 2017 included as part of this offering memorandum.

#### *Ordinary income*

We recognize revenue when it is probable that any future economic benefit associated with the item of revenue will flow to us and the amount of revenue can be measured reliably.

#### Interest income and expenses

Interest income and expenses are recognized in the consolidated statement of profit and loss for all financial instruments, presented at amortized cost using the effective interest rate method. The effective interest rate method involves the estimation of future cash flows in light of all contractual terms of the financial instrument (e.g. prepaid options), but does not consider future credit losses, and also includes (a) all fees paid or received between parties of the financial instrument that are an integral part of the effective interest rate, (b) transaction costs and (c) all other premiums or discounts.

Under IAS 39 Financial Instruments: Recognition and Measurement, the deferral of accrued interest on impaired loans is not required. IAS 39 AG93 states that "once the value of the financial asset or group of similar financial assets has been reduced as a result of an impairment loss, interest income will be recognized thereafter

using the interest rate applied to the discount of future cash flows for the purpose of measuring the impairment loss.” Article 30 of Agreement No. 4-2013 of the Superintendency of Banks of Panama establishes the suspension of the interest recognition when the demand for the deferral of interest recognition when we (a) determine the deterioration in the client’s financial condition, and/or (b) the debtor has not made the originally agreed contractual payments over a number of days depending on the type of loan, and (c) we determine the uncertainty of recovering the totality of the overdraft in the absence of cancellation in a certain number of days. Resolution SBP-GJD-0003-2013 indicates that the concept of non-accrual of interest is not applied under IFRS.

#### Commissions and similar types of income

We charge commissions for two categories of services that we provide to our customers:

- services rendered during a certain period of time, which may be (a) short-term, in which case commissions and fees are recognized as income on a cash basis, or (b) medium- to long-term, in which case commissions are generally deferred and amortized as income using the effective interest rate method over the life of the relevant loan (although commissions not related to the effective interest rate are included as income on loan commissions in the consolidated statement of profit or loss), and
- trading or participating in the negotiation of a transaction, in which case fees are generally recognized at the end of the transaction (although fees that are linked to a particular performance are recognized after meeting the relevant criteria).

#### Dividend Income

Dividends are recognized in the consolidated statement of profit or loss when the entity has the right to receive such dividends.

For a further description of our accounting policies relating to income recognition, see note 2 to our audited financial statements for the year ended December 31, 2016 and our unaudited financial statements for the six months ended June 30, 2017 included as part of this offering memorandum.

#### *Loan Impairment*

At the date of each consolidated statement of financial position, we assess whether there is objective evidence that a loan or group of loans is impaired, including when a loan is more than three months past due or there is other objective evidence of impairment.

We evaluate each loan that is individually significant, analyzing the profile of the relevant debtor, any associated guarantees and information on credit behavior in the sector. We consider an individually significant loan to be impaired when, based on current or past information and events, it is probable that we will not be able to recover all the amounts (including the interest and commissions) described in the original contract. The loss associated with an impairment is measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows, including the fair value of any collateral, discounted at the loan’s original effective interest rate. When it is determined that an individually significant loan will be substantially recovered solely from the value of collateral or guarantee, we estimate the impairment loss as the difference between the carrying amount of the loan and the current fair value of the collateral or guarantee less any estimated selling costs.

Loans that (a) are not individually significant or (b) are individually significant and are not impaired are grouped together based on having similar risk characteristics, using statistical techniques based on the analysis of historical loss experience, and each such group is evaluated for impairment. The historical losses experience information takes into account three fundamental factors: the exposure at default, the probability of default and the loss given default. Historical loss experience is adjusted to include the most recent data regarding current economic conditions, the performance trends by industry or region, or the concentration of obligations in each portfolio of financial assets by segment, and any other relevant information that may affect the allowance for loans and advances and lease losses. For a further description of these factors and our accounting policies relating to loan impairment,

see note 2 to our audited financial statements for the year ended December 31, 2016 and our unaudited financial statements for the six months ended June 30, 2017 included as part of this offering memorandum.

Once a loan or group of loans is classified as impaired, interest income continues to be recognized using the interest rate applied to discount future cash flows of the loan in order to assess the impairment losses.

### *Loans*

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are generally originated by providing funds to a borrower as a loan. Loans are initially measured at fair value plus transaction costs and origination fees. They are subsequently measured at amortized cost under the effective interest rate method, except when we elect to record the loans and advance at fair value with subsequent changes recorded in profit or loss.

Finance lease assets comprise equipment and vehicle lease contracts and are reported as part of the loan portfolio. These assets are recorded under the financial method, which presents the leases at the present value of the contracts. The difference between the gross lease receivable and the present value of the lease receivable is recognized as unearned interest income and is amortized and recorded as interest income on loans during the period of the lease under the effective interest rate method.

### *Restructured financial assets*

In the case of an actual or possible deterioration of a borrower's ability to pay in connection with a loan, we may restructure that loan through changes in contractual terms, fees and payment terms. With respect to any restructured loan, guarantees that were applicable to the loan before restructuring are kept in place, and we may seek to obtain additional guarantees. We view restructuring as an exceptional measure in managing our loan portfolio, the purpose of which is to modify the originally agreed conditions of the loan in order to allow the debtor to fulfill all or part of its obligations under the relevant loan.

## **Results of Operations**

### ***Results of Operations for the Six Months Ended June 30, 2017, Compared to the Six Months Ended June 30, 2016***

The following table shows the principal components of our net profit for the six-month period ended June 30, 2017 and June 30, 2016:

	<b>Banistmo and Subsidiaries</b>		<b>Percentage Change %</b>
	<b>For the six months ended June 30,</b>		
	<b>2017</b>	<b>2016</b>	
	<i>(Amounts in US\$ millions)</i>		
<b>Consolidated Statement of Profit or Loss</b>			
Total interest and commission income.....	247.5	222.2	11.4%
Total interest expense .....	88.0	73.2	20.3%
<b>Net interest and commission income, before provisions .....</b>	<b>159.5</b>	<b>149.0</b>	<b>7.0%</b>
Provision for impairment of financial assets .....	49.8	40.6	22.7%
<b>Net interest and commission income, after provisions .....</b>	<b>109.7</b>	<b>108.4</b>	<b>1.2%</b>
Total income from banking and other services, net .....	43.1	27.0	59.6%
Total general and administrative expenses.....	99.4	98.8	0.6%
<b>Profit before income tax and discontinued operations.....</b>	<b>53.4</b>	<b>36.6</b>	<b>45.9%</b>
Income tax expense.....	11.7	4.5	159.2%
<b>Profit for the period from continuing operations .....</b>	<b>41.6</b>	<b>32.1</b>	<b>29.9%</b>
<b>Net profit for the period .....</b>	<b>41.6</b>	<b>32.1</b>	<b>29.9%</b>

*Net interest and commission income, before provisions*

Net interest and commission income, before provisions, increased 7.0% to US\$159.5 million for the six months ended June 30, 2017, from US\$149.0 million for the six months ended June 30, 2016.

The following table shows the breakdown of interest and commission income resulting in net interest and commission income, before provisions, for the six months ended June 30, 2017 and June 30, 2016:

	<b>Banistmo S.A. and Subsidiaries</b>		<b>Percentage Change %</b>
	<b>For the six months ended June 30,</b>		
	<b>2017</b>	<b>2016</b>	
	<i>(Amounts in US\$ millions)</i>		
<b>Interest income</b>			
Loan interest .....	232.0	206.8	12.2%
Interest and other investment income .....	12.1	12.3	(1.8)%
Interest on deposits .....	3.3	3.0	8.9%
	<b>247.5</b>	<b>222.2</b>	<b>11.4%</b>
<b>Minus – Interest expense</b>			
Interest on deposits .....	71.9	59.9	20.0%
Interest on financings received. ....	16.1	13.3	21.3%
	<b>88.0</b>	<b>73.2</b>	<b>20.3%</b>
<b>Net interest and commission income</b> .....	<b>159.5</b>	<b>149.0</b>	<b>7.0%</b>

Total interest and commission income increased 11.4% to US\$247.5 million for the six months ended June 30, 2017 from US\$222.2 million for the same period in 2016. The increase in total interest and commission income was primarily due to a higher level of performing loans that carried higher interest rates on average. The amount of the increase in interest income due to growth in volume (calculated as the product of the change in volume of the loan portfolio multiplied by the rate for the later period) was US\$13.0 million, which was similar to the amount of increase in interest income due to higher interest rates on the loans (calculated by multiplying the change in rate by the volume of the loan portfolio for the earlier period), which was US\$12.2 million. Our gross loan portfolio less net fees plus interest receivable increased 6.2% to US\$7,531.5 million as of June 30, 2017, from US\$7,094.8 million as of June 30, 2016, primarily due to growth in the construction and residential mortgage portfolio. The average annual interest rate on the performing loans increased by 40 basis points, from 6.0% as of June 30, 2016 to 6.4% as of June 30, 2017.

Total interest expense increased by 20.3% to US\$88.0 million for the six months ended June 30, 2017 from US\$73.2 million for the six months ended June 30, 2016, due to an increase in the average volume of total interest-bearing liabilities of 6.1% to US\$6,654 million as of June 30, 2017 from US\$6,274 million as of June 30, 2016, to support growth in our business, and a 30 basis points increase in the average annual interest rate on interest bearing liabilities due to rising market interest rates, from 2.4% as of June 30, 2016 to 2.7% as of June 30, 2017.

*Provision for impairment of financial assets*

The following table shows the breakdown of provision for impairment of financial assets for the six months ended June 30, 2017 and June 30, 2016:

	<b>Banistmo S.A. and Subsidiaries</b>	
	<b>As of June 30,</b>	
	<b>2017</b>	<b>2016</b>
	<i>(Amounts in US\$ millions)</i>	
<b>Corporate &amp; Government</b>		
<b>Retail &amp; SMEs</b> .....	4.2	15.2
Consumer.....	36.6	23.9
Residential mortgage .....	9.0	1.4
<b>Total</b> .....	<b>49.8</b>	<b>40.6</b>

The provision as of June 30, 2017 in our Corporate & Government portfolio reflects the partial recovery of a Colon Free Zone client which resulted in a release of provisions. The provision in 2016 in our Corporate & Government portfolio includes a US\$13.0 million provision for two clients, one in the Colon Free Zone due to increase in that client's delinquency, and one in our construction portfolio, because the client has not been able to recover overcharges relating to the project. In our Retail & SMEs portfolio, the increase in the provision as of June 30, 2017 is primarily due to our credit card products, personal loans and residential mortgages, and US\$10.2 million of the increase resulted mainly from a change in the impairment methodology which we apply to align with practice at Bancolombia in our consumer loans and residential mortgage loans.

*Total income from banking services and others, net*

Total income from banking services and others, net, increased 59.6% to US\$43.1 million as of June 30, 2017 from US\$27.0 million as of June 30, 2016, primarily due to the increase in fees associated with credit cards and a one-time release in 2017 of a provision of US\$3.6 million relating to the expiration of unused miles accrued by customers under our credit card loyalty program.

*Total general and administrative expenses*

Total general and administrative expenses remained relatively flat, increasing by only 0.6% to US\$99.4 million for the six months ended June 30, 2017 from US\$98.8 million for the six months ended June 30, 2016.

The following table shows the breakdown of total general and administrative expenses for the six months ended June 30, 2017 and June 30, 2016:

	<b>Banistmo S.A. and Subsidiaries</b>		
	<b>For the six months ended June 30,</b>		
	<b>2017</b>	<b>2016</b>	<b>% Change</b>
	<i>(Amounts in US\$ millions)</i>		
Salaries and other employee expenses .....	43.0	39.6	8.6%
Rent .....	7.3	7.2	1.4%
Promotion and advertisements .....	1.9	2.4	(20.8)%
Fees and professional services .....	6.9	10	(31.0)%
Depreciation and amortization .....	8.6	10.1	(14.9)%
Other expenses .....	31.6	29.5	7.1%
<b>Total general and administrative expenses .....</b>	<b>99.4</b>	<b>98.8</b>	<b>0.6%</b>

The slight increase in general and administrative expenses in the first half of 2017 is primarily due to higher personnel costs that were largely offset by decreases in other expense categories. Personnel costs totaled US\$43.0 million for the six months ended June 30, 2017, an increase of 8.6% over the same period in 2016, and represented 43.3% of our total general and administrative expenses for the 2017 period. Personnel costs rose as a result of a 2.4% salary increase, the payment of bonuses in respect of 2016 but expensed in March 2017, and an increase in severance costs as a result of a restructuring in January 2017 which reduced headcount by approximately 4.5%. These expense increases were partially offset by the absence in 2017 of expenses associated with the accelerated amortization of software taken out of service in 2016.

*Profit before income tax and discontinued operations*

Profit before income tax and discontinued operations increased by 45.9% to US\$53.4 million for the six months ended June 30, 2017, from US\$36.6 million for the same period of 2016, as a result of the changes described above.

### *Income tax expense*

Income tax expense increased by 159.2% to US\$11.7 million for the six months ended June 30, 2017, from US\$4.5 million for the same period of 2016. The increase in income taxes was due to an increase in deferred tax expenses resulting from the reversal of provisions during the first six months of 2017. Such provisions had originated from a deferred income tax asset.

### ***Results of Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015***

The following table sets forth the principal components of our net profit for the years ended December 31, 2016 and 2015.

	<b>Banistmo and Subsidiaries</b>		<b>Percentage Change %</b>
	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	
<i>(Amounts in US\$ millions)</i>			
<b>Consolidated Statement of Profit or Loss</b>			
Total interest and commission income.....	456.5	412.8	10.6%
Total interest expense .....	155.4	134.8	15.3%
<b>Net interest and commission income, before provisions .....</b>	<b>301.1</b>	<b>278.0</b>	<b>8.3%</b>
Provision for impairment of financial assets .....	101.9	40.4	152.5%
<b>Net interest and commission income, after provisions .....</b>	<b>199.2</b>	<b>237.6</b>	<b>(16.2%)</b>
Total income from banking and other services, net .....	57.8	46.8	23.6%
Total general and administrative expenses.....	212.2	199.4	6.4%
<b>Profit before income tax and discontinued operations .....</b>	<b>44.8</b>	<b>85.0</b>	<b>(47.3%)</b>
Income tax expense.....	(1.0)	15.0	(106.9%)
<b>Profit for the year from continuing operations .....</b>	<b>45.8</b>	<b>70.0</b>	<b>(34.5%)</b>
Profit for the year from discontinued operations, net of income tax .....	0.0	24.7	(100.0%)
<b>Net profit for the year .....</b>	<b>45.8</b>	<b>94.7</b>	<b>(51.6%)</b>

### *Net interest and commission income, before provisions*

Net interest and commission income, before provisions, increased US\$23.1 million, or 8.3%, to US\$301.1 million for the year ended December 31, 2016 from US\$278.0 million for the year ended December 31, 2015, mainly due to a 10.6% increase of US\$43.7 million in total interest and commission income, to US\$456.5 million for the year ended December 31, 2016 from US\$412.8 million for the year ended December 31, 2015. The growth due to volume (calculated as the product of the change in volume of the loan portfolio multiplied by the rate for the later period) of US\$23.6 million reflects increases in our residential mortgage, construction and credit card portfolios, offset in part by a decrease in commercial and industrial portfolios. Total net loans totaled US\$7,143.7 million as of December 31, 2016, an increase of 5.8% compared with US\$6,754.3 million as of December 31, 2015. Higher average interest rates on performing loans contributed US\$18.6 million (calculated by multiplying the change in rate by the volume of the loan portfolio for the earlier period) to the increase in interest income. The increase in interest income was partially offset by a US\$20.6 million net increase in total interest expense, resulting from the growth of average total interest-bearing liabilities, principally time deposits, of 7.0% to US\$6,376.6 million for the year ended December 31, 2016 from US\$5,962.6 million for the year ended December 31, 2015. The increase in interest expense attributable to volume was US\$9.7 million and to changes in interest rate paid was US\$10.9 million.

The following table shows the breakdown of interest and commission income for the years ended December 31, 2016 and December 31, 2015:

	<b>Banistmo S.A. and Subsidiaries</b>		<b>Percentage Change %</b>
	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	
<i>(Amounts in US\$ millions)</i>			
<b>Interest Income</b>			
Loan interest.....	426.8	384.6	11.0%

	<b>Banistmo S.A. and Subsidiaries</b>		<b>Percentage Change %</b>
	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	
	<i>(Amounts in US\$ millions)</i>		
Interest and other investment income .....	23.7	23.7	0.0%
Interest on deposits .....	6.0	4.5	33.2%
	<b>456.5</b>	<b>412.8</b>	<b>10.6%</b>
<b>Minus – Interest expense</b>			
Interest on deposits .....	125.9	113.7	10.8%
Interest on financings received .....	29.4	21.1	39.6%
	<b>155.4</b>	<b>134.8</b>	<b>15.3%</b>
<b>Net interest and commission income, before provisions .....</b>	<b>301.1</b>	<b>278.0</b>	<b>8.3%</b>

*Provision for impairment of financial assets*

Provisions for the impairment of financial assets increased 152.5% to US\$101.9 million for the year ended December 31, 2016, from US\$40.4 million for the year ended December 31, 2015.

The following table shows the breakdown of provision for impairment of financial assets for the years ended December 31, 2016 and December 31, 2015:

	<b>Banistmo S.A. and Subsidiaries</b>	
	<b>As of December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<i>(Amounts in US\$ millions)</i>	
<b>Corporate &amp; Government</b>		
<b>Retail &amp; SMEs</b> .....	38.5	4.0
Consumer.....	59.0	33.3
Residential mortgage .....	4.4	2.7
<b>Loans</b> .....	<b>101.9</b>	<b>40.0</b>
Investment .....		0.4
<b>Total</b> .....	<b>101.9</b>	<b>40.4</b>

The increase in provisions in our Corporate & Government loans was primarily due to provisions for two clients, one in our Colon Free Zone portfolio for an amount of US\$16.4 million due to increase in that client's delinquency and one in our construction portfolio for an amount of US\$19.0 million because the client has not been able to recover overcharges relating to the project. Provisions for our Retail and SME portfolio increased mainly due to credit cards, personal loans and smaller increases in provisions for vehicles loans resulted mainly from a change in the impairment methodology which we apply to align with practice at Bancolombia in our consumer loans and residential mortgage loans.

*Total income for banking services and others, net*

Total income for banking services and others, net, increased by US\$11 million, or 23.6%, to US\$57.8 million for the year ended December 31, 2016 from US\$46.8 million for the year ended December 31, 2015, mainly due to our commissions received from the sale of insurance products offered by Grupo Sura for a total aggregate amount of US\$7.3 million. These sales activities began following the completion in August 28, 2015 of the sale of Seguros Banistmo to Grupo Sura. For additional information regarding the sale of Seguros Banistmo to Grupo Sura, please see “*Business—History*” and “*Lines of Business—Retail & SME Banking—Insurance Products*.” We also recorded income from derivatives hedging transactions relating to investments in Republic of Panama bonds and certain derivatives dealing activities.

### *Total general and administrative expenses*

Total general and administrative expenses increased 6.4% to US\$212.2 million for the year ended December 31, 2016, from US\$199.4 million in the year ended December 31, 2015.

The following table shows the breakdown of total general and administrative expenses for the years ended December 31, 2016 and December 31, 2015:

	<b>Banistmo S.A. and Subsidiaries</b>		<b>% Change</b>
	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	
	<i>(Amounts in US\$ millions)</i>		
Salaries and other employee expenses .....	81.4	78.1	4.1%
Leases .....	15.0	14.3	4.9%
Advertising and promotion .....	4.9	4.8	3.2%
Fees and professional services .....	26.3	17.2	53.2%
Depreciation and amortization .....	20.9	18.0	16.0%
Other expenses .....	63.7	67.0	(4.9)%
<b>Total general and administrative expenses .....</b>	<b>212.2</b>	<b>199.4</b>	<b>6.4%</b>

The increase in general and administrative expenses was primarily due to a US\$9.1 million increase in fees and professional services, primarily related to consulting services in the amount of US\$3.1 million, expenses related to the assessment of bank core application systems of US\$2.7 million, non-banking agents implementation in the amount of US\$0.7 million, and legal fees in the amount of US\$0.7 million related to loans recovery process related to a specific customer group in our construction portfolio. Salaries and other employee expenses increased by US\$3.3 million due to a 2.0% general salary increase in 2016.

### *Profit before tax and discontinued operations*

Profit before tax and discontinued operations decreased by 47.3% to US\$44.8 million in the year ended December 31, 2016 from US\$85.0 million in the year ended December 31, 2015 as a result of the variations explained above.

### *Income tax expense*

Income tax expense decreased by 106.9% to US\$1.0 million in income tax benefit for the year ended December 31, 2016 from US\$15.0 million for the year ended December 31, 2015. The decrease in income taxes was primarily due to deferred taxes assets recorded in 2016 as a result of the increase of provisions for loan-losses during that year.

### *Net profit of the year*

As a result of the factors described above, net profit for the year decreased 51.6% to US\$45.8 million for the year ended December 31, 2016, from US\$94.7 million for the year ended December 31, 2015.

### ***Results of Operations for the Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014***

The following table sets forth the principal components of our net profit for the years ended December 31, 2015 and 2014.

	<b>Banistmo and Subsidiaries</b>		<i>Percentage Change %</i>
	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	
	<i>(Amounts in US\$ millions)</i>		
<b>Consolidated Statement of Income</b>			
Total interest and commission income.....	412.8	385.7	7.0%
Total interest expense .....	134.8	129.3	4.3%
<b>Net interest and commission income, before provisions .....</b>	<b>278.0</b>	<b>256.4</b>	<b>8.4%</b>
Provision for impairment of financial assets .....	40.4	38.9	3.9%
<b>Net interest and commission income, after provisions .....</b>	<b>237.6</b>	<b>217.5</b>	<b>9.2%</b>
Total income from banking and other services, net .....	46.8	50.5	(7.3)%
Total general and administrative expenses.....	199.4	190.2	4.8%
<b>Profit before income tax and discontinued operations.....</b>	<b>85.0</b>	<b>77.8</b>	<b>9.3%</b>
Income tax .....	15.0	16.5	(9.1)%
Equity participation in associates.....	0.0	0.0	0.0%
<b>Profit for the year from continuing operations .....</b>	<b>70.0</b>	<b>61.3</b>	<b>14.2%</b>
Profit for the year from discontinued operations, net of income tax .....	24.7	15.5	59.4%
<b>Net profit for the year .....</b>	<b>94.7</b>	<b>76.8</b>	<b>23.3%</b>

*Net interest and commission income, before provisions*

Net interest and commission income, before provisions increased US\$21.6 million, or 8.4%, to US\$278.0 for the year ended December 31, 2015 from US\$256.4 for the year ended December 31, 2014, mainly due to an increase in total interest and commission income of US\$27.0 million to US\$412.8 million for the year ended December 31, 2015 from US\$385.7 million for the year ended December 31, 2014.

The following table shows the breakdown of interest and commission income for the years ended December 31, 2015 and December 31, 2014:

	<b>Banistmo S.A. and Subsidiaries</b>	
	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
	<i>(Amounts in US\$ millions)</i>	
<b>Interest income</b>		
Loan interest .....	384.6	358.1
Interest and other investment income .....	23.7	23.7
Interest on deposits .....	4.5	3.9
	<b>412.8</b>	<b>385.7</b>
<b>Minus – Interest expense</b>		
Interest on deposit.....	113.7	107.5
Interest on financings received.....	21.1	21.7
	<b>134.8</b>	<b>129.3</b>
<b>Net interest and commission income, before provisions .....</b>	<b>278.0</b>	<b>256.4</b>

The growth in interest income resulted from growth in the volume of the loan portfolio (effect of US\$39.3 million), was offset by the effect of a decrease in interest rates on the loans by US\$12.9 million. The volume increase resulted primarily from growth in our commercial and industrial loans, personal loans and residential mortgages. The total gross loan portfolio totaled US\$6,754 million as of December 31, 2015 and compared with US\$6,209 million as of December 31, 2014. The increase in interest income was partially offset by a US\$5.5 million increase in total interest expense, which resulted from growth of the volume of interest-bearing liabilities to US\$5,962.6 million for the year ended December 31, 2015 from US\$5,524.3 million for the year ended December 31, 2014. This effect of the increase in the volume of liabilities (US\$11 million) was offset in part by the effect of lower average interest rates on liabilities in 2015 (US\$5.5 million).

*Total income from banking and other services, net*

Total income from banking and other services, net, decreased by US\$3.7 million, or 7.3%, to US\$46.8 million for the year ended December 31, 2015 from US\$50.5 million for the year ended December 31, 2014, mainly due to a decrease in structured loan fees of the Corporate & Government loan portfolio associated with a reduced amount of government-sponsored infrastructure projects.

*Provision for impairment of financial assets*

Provisions for the impairment of financial assets increased 3.9% to US\$40.4 million for the year ended December 31, 2015, from US\$38.9 million for the year ended December 31, 2014.

The following table shows the breakdown of provision for impairment of financial assets for the years ended December 31, 2015 and December 31, 2014:

	<b>Banistmo S.A. and Subsidiaries</b>	
	<b>As of December 31,</b>	
	<b>2015</b>	<b>2014</b>
	<i>(Amounts in US\$ millions)</i>	
<b>Corporate &amp; Government</b>		
<b>Retail &amp; SMEs</b> .....	4.0	(0.4)
Consumer.....	33.3	35.8
Residential mortgage.....	2.7	3.5
<b>Loans</b> .....	<b>40.0</b>	<b>38.9</b>
Investment.....	0.4	0.0
<b>Total</b> .....	<b>40.4</b>	<b>38.9</b>

The increase in provisions in our Corporate & Government loans for 2015 was primarily due to provisions for two clients, one in our Colon Free Zone portfolio due to increase in that client's delinquency, and one in our commercial portfolio, who experienced a slowdown in business. Provisions for our Retail & SMEs portfolio did not change materially between 2015 and 2014.

*Total general and administrative expenses*

Total general and administrative expenses increased 4.8% to US\$199.4 million for the year ended December 31, 2015, from US\$190.2 million for the year ended December 31, 2014.

The following table shows the breakdown of total general and administrative expenses for the years ended December 31, 2015 and December 31, 2014:

	<b>Banistmo S.A. and Subsidiaries</b>		<b>% Change</b>
	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	
	<i>(Amounts in US\$ millions)</i>		
Salaries and other employee expenses.....	78.1	79.7	(2.0)%
Rent.....	14.3	9.3	53.8%
Promotion and advertisements.....	4.8	4.2	14.3%
Fees and professional services.....	17.2	21.1	(18.5)%
Depreciation and amortization.....	18.0	18.5	(2.7)%
Other expenses.....	67.0	57.4	16.7%
<b>Total general and administrative expenses</b> .....	<b>199.4</b>	<b>190.2</b>	<b>4.8%</b>

General and administrative expenses excluding salaries and other employee expenses, and depreciation and amortization increased 12.2% from US\$92.0 million in the year ended December 31, 2014 to US\$103.2 million in the year ended December 31, 2015, representing 51.8% of total administrative expenses. This increase was mainly a result of real estate costs associated with our new headquarters and costs associated with the substitution of IT

services previously provided by HSBC Bank (Panamá) under a transition services agreement entered into at the time of the acquisition by Grupo Bancolombia. The increase in real estate and IT costs was partially offset by a decrease in salaries and employee benefits due to a staff reorganization at the beginning of 2015, a reduction in outsourced services (mainly IT support) and the introduction of a more efficient procurement process.

#### *Income before tax and discontinued operations*

Income before tax and discontinued operations increased 9.3% to US\$85.0 million in the year ended December 31, 2015 from US\$77.8 million in the year ended December 31, 2014 as a result of the variations explained above.

#### *Income taxes*

Income taxes decreased by 9.1% to US\$15.0 million for the year ended December 31, 2015 from US\$16.5 million for the year ended December 31, 2014. Income tax expense was positively impacted during the year 2015 due to the recognition of a deferred tax asset as a result of the increase in provisions during the year.

#### *Net profit for the year*

As a result of the factors described above, net profit increased 23.3% to US\$94.7 million for the year ended December 31, 2015, from US\$76.8 million for the year ended December 31, 2014.

### **Financial Position**

The following table sets forth our financial position as of December 31, 2016, 2015 and 2014, and as of June 30, 2017 and June 30, 2016.

	<b>Banistmo S.A. and Subsidiaries</b>				
	<b>As of June 30,</b>		<b>As of December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(Amounts in US\$ millions)</i>				
<b>Assets</b>					
Cash and cash effects .....	120.5	145.0	203.9	224.2	123.0
Total deposits in financial institutions .....	735.7	773.2	741.5	722.7	893.9
Total cash, cash effects and deposits .....	856.2	918.2	945.4	946.9	1,016.9
Investments in securities .....	760.3	687.9	735.3	870.5	760.5
Gross loans .....	7,604.5	7,153.8	7,326.7	6,866.5	6,310.0
Interest receivable .....	26.6	27.6	34.1	27.7	23.5
Less:					
Allowance for impairment .....	141.4	91.0	122.1	66.3	62.5
Unearned and discounted interest and commissions .....	99.6	86.6	94.9	73.6	62.2
Loans, net .....	7,390.1	7,003.8	7,143.7	6,754.3	6,208.8
Other assets .....	348.3	353.7	349.6	349.2	326.1
<b>Total assets</b> .....	<b>9,354.9</b>	<b>8,963.6</b>	<b>9,174.1</b>	<b>8,920.9</b>	<b>8,312.2</b>
<b>Liabilities and Equity</b>					
Liabilities:					
Customers' deposits: .....	6,335.1	6,012.3	6,321.3	6,251.6	5,930.9
Interbank deposits .....	548.2	429.5	399.2	352.6	172.6
Total customers and interbank deposits .....	6,883.3	6,441.8	6,720.5	6,604.2	6,103.5
Borrowings .....	1,193.3	1,238.5	1,184.8	1,093.1	1,024.1
Other liabilities .....	229.7	306.8	261.1	275.8	306.8
Total liabilities .....	8,306.3	7,987.2	8,166.4	7,973.2	7,434.4
Total equity .....	1,048.6	976.4	1,007.7	947.8	877.8
<b>Total liabilities and equity</b> .....	<b>9,354.9</b>	<b>8,963.6</b>	<b>9,174.1</b>	<b>8,920.9</b>	<b>8,312.2</b>

### *Total assets*

Total assets increased by US\$391.3 million, or 4.4%, to US\$9,354.9 million as of June 30, 2017 from US\$8,963.6 million as of June 30, 2016. The increase in total assets was mainly due to an increase of 5.5% in loans, net, from June 30, 2016 to June 30, 2017 and a 10.5% increase in investments in securities in the same period. This increase was partially offset by a 35.6% increase in our allowances for loan-losses.

Our total assets increased by US\$253.2 million, or 2.8%, during the year ended December 31, 2016 to US\$9,174.1 million from US\$8,920.9 million as of December 31, 2015 and US\$8,312.2 million as of December 31, 2014. The increase in total assets over the two-year period was mainly due to the 7.6% compound annual growth in our loan portfolio.

### *Total cash, cash effects and deposits*

Total cash, cash effects and deposits decreased by US\$62.0 million, or 6.8%, to US\$856.2 million as of June 30, 2017 from US\$918.2 million as of June 30, 2016, mainly due to a decrease in demand deposits in foreign financial institutions, which were transferred to higher yielding assets such as loans and investment in securities.

Total cash, cash effects and deposits decreased by US\$1.4 million, or 0.2%, to US\$945.4 million for the year ended December 31, 2016 from US\$946.9 million as of December 31, 2015, which in turn reflected a decrease from US\$1,016.9 million as of December 31, 2014. Cash, cash effects and deposits decreased as we funded the expansion of our loan portfolio.

### *Loans, net*

Net loans increased by US\$386.3 million, or 5.5%, to US\$7,390.1 million as of June 30, 2017 from US\$7,003.8 million as of June 30, 2016, mainly due to the increase of US\$436.7 million in gross loans less net fees plus interest receivable, partially offset by the increase of US\$50.4 million in the allowance for loan losses in the same period for the reasons discussed under “*Results of Operations*” above.

Our net loans increased by US\$389.4 million, or 5.8%, during the year ended December 31, 2016 to US\$7,143.7 million from US\$6,754.3 million as of December 31, 2015. Our net loans amounted to US\$6,208.8 million as of December 31, 2014. The growth in net loans was due primarily to an increase of US\$445.2 million in gross loans less net fees plus interest receivable, which was mainly driven by the growth in residential mortgages of US\$282.8 million, commercial loans of US\$55.0 million, personal loans of US\$32.2 million and credit card loans of US\$49.8 million. As our loan portfolio has grown, mainly driven by increases in our Retail & SMEs portfolio, we have also experienced a growth in non-performing loans in that portfolio due to our increased focus on credit card loans and personal loans, which carry higher interest rates but are generally riskier than Corporate & Government loans. In addition, we experienced impairments in loans to three specific clients in our Corporate & Government portfolio, one each in our Construction, Canal Free Zone and Commercial portfolios. We seek to maintain non-performing loan averages beneath 3.0% and our current non-performing loan average is 2.6%.

### *Gross loans*

Gross loans increased by US\$450.7 million, or 6.3%, to US\$7,604.5 million as of June 30, 2017 from US\$7,153.8 million as of June 30, 2016 primarily due to the growth in volume of residential mortgages by US\$168.2 million, the growth in volume of commercial loans by US\$211.5 million, and the growth in volume of loans to SMEs by US\$61.4 million. The average duration of the loan portfolio at June 30, 2017 was 12.6 years.

Gross loans increased by US\$460.2 million, or 6.7%, during the year ended December 31, 2016 to US\$7,326.7 million from US\$6,866.5 million as of December 31, 2015 and US\$6,310.0 million as of December 31, 2014. The increases resulted primarily from the growth in the volume of residential mortgages by US\$282.8 million (30.7% compound annual growth), commercial loans by US\$55.0 million (0.8% compound annual growth), personal loans by US\$32.2 million (33.3% compound annual growth) and credit card loans by US\$49.8 million (41.0% compound annual growth).

### Investments in securities

Investments in securities increased by US\$72.4 million, or 10.5%, to US\$760.3 million as of June 30, 2017 from US\$687.9 million as of June 30, 2016. This increase is mainly due to a purchase of the available for sale portfolio of U.S. treasury bonds in the amount of US\$129.5 million in order to take advantage of market opportunities, such as better interest rates. The average credit ratings of securities in the investment portfolio as of June 30, 2017 were Baa2, BBB and BBB from Moody's, Standard & Poor's and Fitch, respectively.

Investments in securities decreased by US\$135.2 million, or 15.5% as of December 31, 2016 to US\$735.3 million from US\$870.5 million as of December 31, 2015, which in turn reflected an increase from US\$760.5 million as of December 31, 2014. The decrease in investment in securities during 2016 is mainly due to the investment maturities of US\$125.0 million in securities held by Banistmo, primarily CETES issued by Mexico. The increase in 2015 is mainly due to the purchase of the held-to-maturity corporate bonds in the amount of US\$92.0 million.

### Liabilities

The following table sets forth the principal components of our liabilities and the percentages each item represents of total liabilities as of June 30, 2017 and 2016, and as of December 31, 2016, 2015 and 2014.

	As of June 30,				As of December 31,					
	2017		2016		2016		2015		2014	
	Balance	% of total	Balance	% of total	Balance	% of total	Balance	% of total	Balance	% of total
	(Amounts in US\$ millions)									
Current account deposits .....	1,271.9	15.3%	1,387.1	17.4%	1,338.4	16.4%	1,460.3	18.3%	1,635.9	22.0%
Savings account deposits .....	1,551.7	18.7%	1,537.7	19.2%	1,593.8	19.5%	1,695.0	21.3%	1,562.6	21.0%
Time deposits .....	3,511.5	42.3%	3,087.2	38.7%	3,389.1	41.5%	3,096.3	38.8%	2,732.4	36.8%
<b>Customers' Deposits</b> .....	<b>6,335.1</b>	<b>76.3%</b>	<b>6,012.3</b>	<b>75.3%</b>	<b>6,321.3</b>	<b>77.4%</b>	<b>6,251.6</b>	<b>78.4%</b>	<b>5,930.9</b>	<b>79.8%</b>
Total interbank time deposits .....	548.2	6.6%	429.5	5.4%	399.2	4.9%	352.6	4.4%	172.6	2.3%
Borrowings .....	1,193.3	14.4%	1,238.5	15.5%	1,184.8	14.5%	1,093.1	13.7%	1,024.1	13.8%
Loans from other financial institutions ..	1,741.5	21.0%	1,668.0	20.9%	1,584.0	19.4%	1,445.7	18.1%	1,196.7	16.1%
Other liabilities .....	229.7	2.7%	306.8	3.8%	261.1	3.2%	275.8	3.5%	306.8	4.1%
<b>Total liabilities</b> .....	<b>8,306.3</b>	<b>100.0%</b>	<b>7,987.2</b>	<b>100.0%</b>	<b>8,166.4</b>	<b>100.0%</b>	<b>7,973.2</b>	<b>100.0%</b>	<b>7,434.4</b>	<b>100.0%</b>

### Total Liabilities

Total liabilities increased by US\$319.2 million, or 4.0%, to US\$8,306.3 million as of June 30, 2017 from US\$7,987.2 million as of June 30, 2016. The increase in total liabilities was primarily due to the volume growth in customer deposits by US\$322.8 million and the growth in interbank time deposits by US\$118.7 million, partially offset by a decrease in borrowings of \$45.2 million and other liabilities of US\$77.1 million.

Total liabilities increased US\$193.2 million, or 2.4%, during the year ended December 31, 2016 to US\$8,166.4 million from US\$7,973.2 million as of December 31, 2015. Total liabilities as of December 31, 2014 were US\$7,434.4 million. The increase in total liabilities was primarily due to a growth of 1.1% in the customer's deposits portfolio by US\$69.7 million, in interbank time deposits by US\$46.7 million and growth of US\$91.6 million in borrowings.

### Customer deposits

Customers' deposits increased by 5.4% to US\$6,335.1 million as of June 30, 2017 from US\$6,012.3 million as of June 30, 2016. The increase in customers' deposits was mainly due to the increase of US\$424.0 million in time deposits, mostly in the Retail & SMEs portfolio, and an increase of US\$14.0 million in savings accounts, from US\$1,537.7 million as of June 30, 2016 to US\$1,551.7 million as of June 30, 2017, mostly also in the Retail & SMEs portfolio due to new customers as well as increased balances from existing customers. As of June 30, 2017, time deposits represented 55.4% of the balance in customer deposits and 42.3% of the balance in total liabilities. The growth in time deposits was partially offset by a decrease in demand deposits of US\$115.2

million. Demand deposits represented 20.1% of total customers' deposits and 15.3% of total liabilities as of June 30, 2017. The decrease in the volume of demand deposits was primarily due to a decrease in the volume of such deposits by commercial banking customers by US\$106.7 million, as customers became more efficient in their cash management.

Customers' deposits increased by US\$69.7 million, or 1.1%, for the year ended December 31, 2016 to US\$6,321.3 million from US\$6,251.6 million as of December 31, 2015. Customers' deposits as of December 31, 2014 were US\$5,930.9 million. The growth in the customers' deposits portfolio was due to a growth of US\$292.8 million in time deposits by both commercial and retail customers, which was partially offset by a decrease in savings account deposits of US\$101.3 million and demand deposits of US\$121.9 million.

The average duration of time deposits was 17.9 months and 17.4 months at June 30, 2017 and 2016, respectively, and 17.4 months, 15.1 months and 16.3 months as of December 31, 2016, 2015 and 2014, respectively.

#### *Interbank deposits*

Interbank deposits increased by 27.6% to US\$548.2 million as of June 30, 2017 from US\$429.5 million as of June 30, 2016. The increase in the balance of interbank time deposits was mainly due to the increase in interbank time deposits from a foreign international bank with a term of more than 1 year.

With respect to interbank deposits, as of June 30, 2017, 69.9%, or 383.0 million, of those have a remaining term of less than one year, out of which 52.2 % correspond to interbank deposits with Bancolombia and 47.8 % to interbank deposits with local banks in Panama. The other 29.6 %, or 162.0 million, of interbank deposits have a remaining term of between one and three years.

Interbank deposits increased by US\$46.7 million, or 13.2%, during the year ended December 31, 2016 to US\$399.2 million, from US\$352.6 million as of December 30, 2015. Interbank deposits as of December 31, 2014 were US\$172.6 million. The increase in interbank time deposits is associated with deposits from a foreign international bank.

#### *Borrowings*

Borrowings totaled US\$1,193.3 million as of June 30, 2017, a decrease of US\$45.2 million, or 3.7%, from US\$1,238.5 million as of June 30, 2016. The decrease in borrowings is mainly due to a greater use of liquidity, rather than borrowings, to support the growth in our loan portfolio.

Borrowings increased by US\$91.6 million, or 8.4%, for the year ended December 31, 2016 to US\$1,184.8 million from US\$1,093.1 million as of December 31, 2015. Borrowings as of December 31, 2014 were 1,024.1 million. This increase in borrowings was made to support the growth in our loan portfolio.

#### *Total equity*

Total equity increased by US\$72.2 million, or 7.4%, to US\$1,048.6 million as of June 30, 2017 from US\$976.4 million as of June 30, 2016. The growth in total equity is explained by an increase in retained earnings of US\$56.5 million to US\$183.0 million as of June 30, 2017 from US\$126.5 million as of June 30, 2016. The growth in retained earnings is due to accumulated profits, and an increase of US\$19.5 million, mainly due to the new valuation of our investment in Telered shares, which increased US\$14.7 million.

Total equity increased by 6.3% for the year ended December 31, 2016 to US\$1,007.7 million from US\$947.8 million as of December 31, 2015. Total equity as of December 31, 2014 was US\$877.8 million. The growth in total equity is due to the growth in retained earnings including the net profit on the sale of Seguros Banistmo. During 2015, preferred shares for US\$147.2 million were redeemed, and US\$132.6 million corresponding to the preferred shares owned by Grupo Bancolombia was reinvested as common equity.

## Liquidity and Funding

Through our asset and liability management policy, we seek to ensure that sufficient liquidity is available to honor withdrawals of deposits, repay other liabilities at maturity, extend loans or other forms of credit to customers and meet working capital needs. The minimum liquidity we must maintain depends on the liquidity requirements established by the Superintendent of Banks. We meet these requirements by maintaining a proper balance between liquidity outflows (withdrawals, disbursements, repayments of our obligations at maturity) and obtaining new financing. As of June 30, 2017 and December 31, 2016, our net loan portfolio represented 107.4% and 106.3% of total deposits, respectively.

Our Asset and Liabilities Committee is responsible for managing our funding and liquidity positions and approving our investment strategy. We cover any shortfall by taking in additional deposits and by borrowing from financial institutions or through disbursement from available credit facilities; the bank disposes of liquid assets, composed by available cash and a bond portfolio, to offset these events. We seek to maximize the efficient use of our funding sources by investing any surplus in liquid investments such as short-term facilities. Our trading desk is responsible for managing our investment portfolio. The size of our investment portfolio at any given time depends on our need for liquidity.

Our Regulatory Liquidity Ratio as of June 30, 2017 was 47.4%, 17.4 basis points higher than the 30% minimum required by the Banking Law, reflecting our strategy of maintaining high levels of liquidity with high quality liquid assets. As of June 30, 2017, our liquid assets totaled US\$924.4 million, of which US\$387.9 million correspond to cash and demand deposits, and US\$186.5 million correspond to highly liquid investments such as sovereign bonds with the highest rating from an international securities rating firm, for a total of US\$574.4 million in high quality liquid assets. The remaining US\$350.0 million of our liquid assets correspond to other sovereign and corporate securities with investment grade ratings

As of June 30, 2017, our most important source of funds is our portfolio of deposits (current accounts, savings accounts and time deposits) which represents 78.4% of our total funding, and interbank deposits from local and foreign financial institutions, which represent 21.6% of our total funding. Demand deposits (current accounts and savings accounts) provide us a source of low-cost funding and are less affected by changes in market condition than other sources of funds. Our credit lines with foreign banks provide us with relatively flexible financing and a stable source of funds at a relatively low cost. However, conditions in the country of origin of such foreign banks or in the international market can cause our lenders to change the interest rate charged and the amount of the line of credit. Time deposits provide us with a very stable source of medium-term funding, but are generally more costly than the alternatives, depending on market conditions.

The following table shows the breakdown of our liquidity sources for the periods indicated:

	June 30,		December 31,		
	2017	2016	2016	2015	2014
Current accounts .....	15.7%	18.1%	16.9%	19.0%	23.1%
Savings accounts.....	19.2%	20.0%	20.2%	22.0%	22.0%
Time deposits.....	43.5%	40.2%	42.9%	40.2%	38.0%
Interbank deposits.....	6.8%	5.6%	5.0%	4.6%	2.4%
Borrowings .....	14.8%	16.1%	15.0%	14.2%	14.4%

In 2016, 2015 and 2014, total deposits, which comprise customer deposits and interbank time deposits represented, on average, 84.6%, 84.2% and 83.5%, respectively of our total funding. As of June 30, 2017 and June 30, 2016, our total deposits including interbank time deposits amounted to US\$6,883.3 million (or 85.2% of our total funding) and US\$6,441.8 million (or 83.9% of our total funding), respectively. As of December 31, 2016, 2015 and 2014, total deposits including interbank time deposits amounted to US\$6,720.5 million (or 85% of our total funding), US\$6,604.2 million (or 85.8% of our total funding) and US\$6,103.5 million (or 85.6% of our total funding), respectively.

As of June 30, 2017 and June 30, 2016, borrowings amounted to US\$1,193.3 million (or 14.8% of our total funding) and US\$1,238.5 million (or 16.1% of our total funding), respectively. As of June 30, 2017 total funding

from Grupo Bancolombia was US\$376.7 million (or 4.7% of our total funding). Funding from borrowings as of December 31, 2016, 2015 and 2014 was US\$1,184.8 million (or 15.0% of our total funding), US\$1,093.1 million (or 14.2% of our total funding) and US\$1,024.1 million (or 14.4% of our total funding), respectively.

We also expect to finance our operations through issuances of debt securities in the local, Panamanian capital markets. On November 23, 2016, we submitted to the SMV a prospectus that would allow us to issue debt securities in the local market in a series of offerings up to a maximum amount of US\$300 million. As of the date of this offering memorandum, the SMV has not approved the filed prospectus.

Our net liquidity ratio, defined as our (i) liquid assets, divided by (ii) total deposits (with a maturity of less than 186 days), less excluded deposits, is in line with the average of the National Banking System (excluding the two state-owned institutions). As of June 30, 2017 and 2016, our average net liquidity ratio was 47.4% and 47.5%, respectively, compared with 45.2% as of June 30, 2016 for the National Banking System (excluding the two state-owned institutions). As of December 31, 2016, 2015 and 2014, our average net liquidity ratio was 48.3%, 45.5% and 46.2%, respectively, whereas the average for the National Banking System (excluding the two state-owned institutions) was 45.8%, 44.9% and 46.4%. The Regulatory Liquidity Ratio for all the periods indicated herein was 30%.

Our funding strategy is to continue using alternative sources of funding in accordance with their cost and availability.

The total amounts outstanding as of June 30, 2017 and June 30, 2016, in short-term borrowings, including interest, from our correspondent banks for trade finance and working capital were:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
	<i>(Amounts in US\$ millions)</i>	
Obligations with institutions for financing of foreign trade, with various maturities up to December 2017 and interest rates between 1.80% and 2.15% .....	185.1	217.6
Obligations with foreign financial institutions for the management of short- and medium-term liquidity with various maturities up to April 2020 and interest rates between 1.35% and 3.67%.....	912.9	915.6
Obligations with local financial institutions for the management of short- and medium-term maturities up to December 2018 and interest rates between 2.87% and 4.02% .....	55.2	65.3
Obligations with multilateral entities for long-term liquidity management, maturing through November 2018 and interest rates averaging 3.08% .....	40.1	40.0
	<u>1,193.3</u>	<u>1,238.5</u>

The total amounts outstanding as of December 31, 2016, December 31, 2015 and December 31, 2014, in short-term borrowings, including interest, from our correspondent banks for trade finance and working capital were:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(Amounts in US\$ millions)</i>		
Obligations with institutions for financing of foreign trade, with various maturities up to 2017 and interest rates between 1.50% and 1.89% .....	138.4	166.5	82.8
Obligations with foreign financial institutions for the management of short- and medium-term liquidity with various maturities up to July 2018 and interest rates between 1.00% and 3.11%.....	964.3	844.0	811.0
Obligations with local financial institutions for the management of short- and medium-term maturities up to December 2018 and interest rates between 2.52% and 3.74%.....	42.1	42.7	90.3

	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(Amounts in US\$ millions)</i>		
Obligations with multilateral entities for long-term liquidity management, maturing through November 2018 and interest rates averaging 2.81% .....	40.0	40.0	40.1
	<u><b>1,184.8</b></u>	<u><b>1,093.1</b></u>	<u><b>1,024.1</b></u>

For additional information regarding management of liquidity risk, please see “*Risk Management—Liquidity Risk*,”

## Capital Expenditures

During 2016, 2015 and 2014, our capital expenditures were US\$15.9 million, US\$47.8 million and US\$19.2 million, respectively. The increase for the year ended December 31, 2015 was mainly as a result of the inauguration of our new headquarters in the fourth quarter of 2015, in addition to regular investments we made in our IT infrastructure to improve our operating reliability. Our capital expenditures during such periods were funded with cash generated by our operations.

For the six months ended June 30, 2017, our capital expenditures were US\$8.9 million, which were funded with cash generated by our operations. We expect our total capital expenditures for 2017 to amount to approximately US\$16.8 million. The major capital projects include a US\$1.3 million document management and digitalization project, US\$1.1 million investment in our Villa Zaita branch and a US\$0.9 million investment to develop “Nequi,” our mobile wallet.

## Risk-Based Capital

The Banking Law requires the establishment of a Minimum Paid-In Capital of US\$10 million and Total Adjusted Capital to Risk-Weighted Assets of 8%. Our equity capital is well above the regulatory minimum at US\$420.4 million. The following table sets forth our actual capital ratios as compared to the minimum capital requirements, as of the dates indicated, computed on a consolidated basis. The selected financial data and ratios presented below have been derived from and should be read in conjunction with our Financial Statements and other financial information contained elsewhere in this offering memorandum.

	<u>As of June 30,</u>		<u>As of December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<i>(Amounts in US\$ millions, except percentages)</i>				
Stockholders’ equity as a percentage of total assets <sup>(1)</sup> .....	11.2%	10.9%	11.0%	10.6%	10.6%
Primary Capital .....	839.6	903.1	802.9	877.5	759.5
Regulatory Capital .....	934.7	903.1	895.8	877.5	759.5
Risk-Weighted Assets .....	6,429.1	6,153.6	6,221.2	6,164.9	5,592.4
Primary Capital to Risk-Weighted Assets Ratio .....	13.1%	14.7%	12.9%	14.2%	13.6%
Regulatory Capital to Risk-Weighted Assets Ratio <sup>(2)</sup> .....	14.5%	14.7%	14.4%	14.2%	13.6%

<sup>(1)</sup> Refers to the end-of-period stockholders’ equity divided by the end-of-period total assets.

<sup>(2)</sup> The minimum requirement in Panama for each period was a Regulatory Capital to Risk-Weighted Assets Ratio of 8.0%.

## Risk-Weighted Assets

In May 2016, the Superintendency of Banks issued Accord No. 3-2016 (“Accord 3”), applicable to reports with respect to periods ending on or after September 30, 2016, as amended, which establishes the rules for calculating risk-weighted credit assets, counterparty risk and irrevocable contingent obligations of the Bank. The rules in Accord 3 for calculating risk-weighted credit assets are based on Basel II standards. Accord 3 eliminates previous requirements to weight assets according to whether or not an entity is domiciled in a jurisdiction that is a member of the OECD and introduces the concept of individual country and company risk qualifications and individual counterparty risk evaluations.

The major changes resulting from Accord 3 are as follows:

#### *Counterparty Risk*

Accord 3 introduces assets generated by exposure to derivatives in determining capital levels risk so that any derivatives exposure is included in determining the maximum loss that could result from a counterparty default.

#### *Loan Portfolio*

Under Accord 3, consumer and auto loans with a term of more than five years are required to be risk-weighted at a higher rate. Prior to Accord 3, consumer and auto loans that had a term of more than five years could be risk-weighted lower once the remaining term was five years or fewer, but Accord 3 eliminated this adjustment so that any consumer or auto loan with a term of more than five years is required to be risk-weighted at a higher rate for its entire term.

All loans that are past-due between 30 – 90 days are weighted at 100%, except for consumer loans with terms of more than five years, which are weighted at higher rates. With respect to mortgage loans, Accord 3 sets forth specific requirements for periodic appraisals in order for loans to be risk-weighted lower. Absent up-to-date appraisals, mortgage loans are required to be weighted at 100%.

In addition, Accord 3 establishes several categories of risk mitigants that permit certain assets to be risk-weighted lower. These include, without limitation, assets supported by letters of credit, standby arrangements, sureties and guarantees issued by banks and assets related to exclusive land rights granted for agricultural use and cattle.

#### *Interbank Deposits and Investments*

Under Accord 3, in the case of interbank deposits and investments, assets are no longer risk-weighted according to whether or not an entity's jurisdiction is a member of the OECD but instead the evaluation is based on credit ratings by recognized credit rating agencies.

### **Off-Balance Sheet Arrangements**

In the normal course of business, the Bank maintains financial instruments with off-balance sheet risks to meet the financial needs of its customers. These financial instruments include letters of credit, guarantees and loan commitments that involve, to varying degrees, elements of credit risk.

Guarantees issued on behalf of customers, commercial letters of credit and loan commitments carry exposure to credit loss risk in the event of non-performance by the customer, net of tangible guarantees securing these transactions. The Bank's credit policies and procedures to approve contingent credit are the same as those for extensions of credit. Our management believes that no material losses will be incurred as a result of these off-balance sheet arrangements.

The financial instruments with off-balance sheet credit risk not included in the consolidated statement of financial position are detailed as follows:

	As of June 30,		As of December 31,		
	2017	2016	2016	2015	2014
	<i>(Amounts in US\$ millions)</i>				
Letters of credit issued.....	92.3	81.1	74.7	46.2	65.7
Guarantees and surety bonds .....	556.9	568.4	496.9	648.2	812.7
Loan commitments <sup>(1)</sup> .....	1081.7	1,346.5	1141.8	1,152.9	1,183.9
<b>Total</b> .....	<b>1,730.9</b>	<b>1,996.0</b>	<b>1,713.4</b>	<b>1,847.4</b>	<b>2,062.3</b>

<sup>(1)</sup> Committed lines plus Payment Promise Letter (certification of mortgage credit approval).

The credit risk of both on- and off-balance sheet financial instruments varies based on many factors, including the value of the collateral held and other security arrangements. To mitigate credit risk, we generally determine the need for specific covenants and guarantee and collateral requirements on a case-by-case basis, depending on the nature of the financial instrument and the customer's creditworthiness. The amount and type of collateral held to reduce credit risk varies, but may include real estate, machinery, equipment, inventory and accounts receivable, as well as cash on deposit, stocks, bonds and other marketable securities that are generally held in our possession or at another appropriate custodian or depository. This collateral is valued and inspected on a regular basis to ensure both its existence and adequacy. Additional collateral is required when we deem it necessary based on our inspections.

### Derivatives Transactions

As a part of our regular market activities we trade foreign exchange forwards and USD interest rate swaps in order to hedge risks or take directional positions, which have to be within the risk limits defined by the Risk Management Committee. We enter into derivatives transactions only with financial institutions that we consider creditworthy, and with our corporate customers we use interest rate swaps and similar derivatives to hedge our exposure to interest rate.

We offer contracts to our customers for the purchase and sale of foreign currencies. As part of this process, we monitor the level of risk involved with regard to the characteristics of the business through the authorization of credit and market risks limits. We periodically authorize, among other terms, the maximum term for these types of transactions, the approved currencies and market risk limits for the portfolio.

### Dividend Policy

Under Panamanian law, we may only pay dividends from (i) our net earnings or profits or (ii) the surplus of our assets after deducting liabilities. We have no dividend policy, since being acquired by Grupo Bancolombia in October 2013, we have distributed no dividends and as of the date hereof we do not plan to distribute any dividends.

### Contractual Obligations

We enter into various contractual obligations that we recognize on our balance sheet that may require future cash payments. The following table sets forth our material contractual obligations by remaining maturity as of June 30, 2017.

	Payments due by period				Payments due by type of obligation
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
	<i>(Amounts in US\$ millions)</i>				
Interbank Time Deposits.....	383.0	165.2	-	-	548.0
Borrowings .....	912.5	280.8	-	-	1,193.3
Current account, savings accounts, time deposits .....	4,775.4	918.4	641.3	-	6,335.1

	<b>Payments due by period</b>				<b>Payments due by type of obligation</b>
	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>	
	<i>(Amounts in US\$ millions)</i>				
Operating lease expenses	6.3	12.0	19.2	134.5	172.0
<b>Total</b> .....	<b>6,077.2</b>	<b>1,376.4</b>	<b>660.5</b>	<b>134.5</b>	<b>8,248.6</b>

### **Quantitative and Qualitative Disclosures about Market Risk**

Risk management consists of the identification and evaluation of risks affecting our operations and the implementation of a business strategy to manage those risks. We have market risk exposure as a result of changes in interest rates, foreign currency prices, asset prices or other financial contracts. The primary objective of our risk management strategy is to manage our balance sheet in light of interest rates, liquidity and foreign exchange risks, as well as the current domestic demand for credit, existing asset and liabilities positions and maturity mismatches, general market conditions and operational risks. For a discussion of these market risks as they impact our business, see “*Risk Management.*”

## SELECTED STATISTICAL INFORMATION

The information in this section is included for analytical purposes and should be read in conjunction with “Presentation of Certain Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Financial Statements, included elsewhere in this offering memorandum. Some of the information in this section has been obtained from public sources, such as the Superintendency of Banks, and may not be comparable to the information in our consolidated financial statements because they are publicly sourced and reported at different times. Selected statistical information with respect to Banistmo that is obtained from the Superintendency of Banks is provided on a stand-alone basis. The excluded subsidiaries of Banistmo do not engage in banking operations and represent 3.7% of Banistmo’s consolidated total assets as of June 30, 2017 and, therefore, presenting such selected statistical information regarding Banistmo on a consolidated basis would not result in material differences in such selected statistical information.

### Presentation of Selected Statistical Information

Presentation of the financial and statistical information included in this section may differ from the manner of presentation required by IFRS for the presentation of our Financial Statements. The following information is presented solely for the convenience of the reader for analytical purposes.

### Average Balances and Interest Rates/Yields Data

The following tables present the average balances for all of our assets and liabilities together with the related interest income and expense amounts for interest-earning assets and interest-bearing liabilities, resulting in the presentation of the average real yields and rates for each period. Average balances for assets and liabilities have been calculated using the sum of the month-end balances for each month during the relevant period divided by the number of months in such period. Interest income (expense) for each year is the total income (expense) for such period.

#### Average Assets and Yields

The following table presents the average balance of assets, interest income and average annual yields for the periods specified.

	For the six month period ended June 30, 2017			For the six month period ended June 30, 2016		
	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)
	<i>(Amounts in US\$ millions)</i>					
<b>Average interest-earning assets</b> .....	<b>8,792.3</b>	<b>247.5</b>	<b>5.7%</b>	<b>8,481.6</b>	<b>222.2</b>	<b>5.3%</b>
Interest-earning deposits in other banks.....	675.6	3.3	1.0%	785.3	3.0	0.8%
Investments .....	774.0	12.1	3.2%	788.2	12.1	3.2%
Performing loans.....	7,342.7	232.0	6.6%	6,908.1	206.8	6.0%
<b>Average non-interest-earning assets</b> .....	<b>482.0</b>	<b>0.0</b>	<b>0.0%</b>	<b>539.0</b>	<b>0.0</b>	<b>0.0%</b>
Other (accounts receivable) .....	(55.2)	0.0	0.0%	(44.6)	0.0	0.0%
Cash and due from banks .....	141.1	0.0	0.0%	162.0	0.0	0.0%
Non-performing loans.....	171.0	0.0	0.0%	144.8	0.0	0.0%
Loan-loss provision .....	(129.1)	0.0	0.0%	(73.7)	0.0	0.0%
Property and equipment, net .....	78.3	0.0	0.0%	91.6	0.0	0.0%
Other assets.....	275.9	0.0	0.0%	258.9	0.0	0.0%
<b>Average assets</b> .....	<b>9,274.3</b>	<b>247.5</b>	<b>5.4%</b>	<b>9,020.6</b>	<b>222.2</b>	<b>5.0%</b>

	For the year ended December 31, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)
	<i>(Amounts in US\$ millions)</i>								
<b>Average interest-earning assets</b> .....	<b>8,549.2</b>	<b>456.5</b>	<b>5.3%</b>	<b>8,192.7</b>	<b>412.8</b>	<b>5.0%</b>	<b>7,814.0</b>	<b>385.7</b>	<b>4.9%</b>

	For the year ended December 31, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)	Average Balance	Interest Income	Average Yield (%)
Interest-earning deposits in other banks	777.8	6.0	0.8%	771.0	4.5	0.9%	992.3	3.9	0.4%
Investments .....	752.4	23.7	3.1%	808.0	23.7	2.9%	862.3	23.7	2.7%
Performing loans .....	7,019.0	426.8	6.1%	6,613.6	384.6	5.8%	5,959.4	358.1	6.0%
<b>Average non-interest- earning assets.....</b>	<b>517.7</b>	<b>0.0</b>	<b>0.0%</b>	<b>550.4</b>	<b>0.0</b>	<b>0.0%</b>	<b>476.5</b>	<b>0.0</b>	<b>0.0%</b>
Other (accounts receivable).....	(48.5)	0.0	0.0%	(33.0)	0.0	0.0%	(31.7)	0.0	0.0%
Cash and due from banks.....	159.4	-	0.0%	142.0	-	0.0%	122.2	-	0.0%
Non-performing loans ..	148.9	-	0.0%	109.1	-	0.0%	94.5	-	0.0%
Loan-loss provision.....	(88.5)	-	0.0%	(63.2)	-	0.0%	(61.3)	-	0.0%
Property and equipment, net.....	90.7	-	0.0%	83.5	-	0.0%	66.5	-	0.0%
Other assets .....	255.7	-	0.0%	312.0	-	0.0%	286.3	-	0.0%
<b>Average assets.....</b>	<b>9,066.9</b>	<b>456.5</b>	<b>5.0%</b>	<b>8,743.0</b>	<b>412.8</b>	<b>4.7%</b>	<b>8,290.5</b>	<b>385.7</b>	<b>4.7%</b>

*Average Liabilities, Stockholders' Equity and Interest Rates*

The following table presents the average balance of liabilities and stockholders' equity, interest expense and average annual rates for the periods specified.

	For the six month period ended June 30, 2017			For the six month period ended June 30, 2016		
	Average Balance	Interest Expense	Average rate (%)	Average Balance	Interest Expense	Average rate (%)
<i>(Amounts in US\$ millions)</i>						
<b>Average interest-bearing liabilities excluding interest-bearing demand deposits .....</b>	<b>6,654.0</b>	<b>88.0</b>	<b>2.7%</b>	<b>6,274.0</b>	<b>73.2</b>	<b>2.4%</b>
Savings deposits.....	1,584.4	7.8	1.0%	1,641.3	7.1	0.9%
Time deposits.....	3,434.8	59.5	3.5%	3,141.3	51.7	3.3%
Interbank time deposits .....	514.4	4.6	1.8%	348.0	1.1	0.6%
Borrowings.....	1,120.4	16.1	2.9%	1,143.4	13.3	2.3%
<b>Average non-interest earning liabilities excluding demand deposits .....</b>	<b>301.5</b>	<b>0.0</b>	<b>0.0%</b>	<b>342.5</b>	<b>0.0</b>	<b>0.0%</b>
Accumulated interest payable .....	40.9	0.0	0.0%	39.2	0.0	0.0%
Deferred credits.....	0.0	0.0	0.0%	0.0	0.0	0.0%
Other Liabilities .....	260.6	0.0	0.0%	303.3	0.0	0.0%
<b>Average demand deposits<sup>(1)</sup>.....</b>	<b>1,286.2</b>	<b>0.0</b>	<b>0.0%</b>	<b>1,431.6</b>	<b>0.0</b>	<b>0.0%</b>
Stockholders' equity.....	1,030.5	0.0	0.0%	972.3	0.0	0.0%
<b>Average liabilities and stockholders' equity .....</b>	<b>9,272.2</b>	<b>88.0</b>	<b>1.9%</b>	<b>9,020.4</b>	<b>73.2</b>	<b>1.6%</b>

(1) Includes interest-bearing and non-interest bearing demand deposits.

	For the year ended December 31, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average Balance	Interest Expense	Average Rate (%)	Average Balance	Interest Expense	Average rate (%)	Average Balance	Interest Expense	Average rate (%)
<i>(Amounts in US\$ millions)</i>									
<b>Average interest-bearing liabilities excluding interest- bearing demand deposits .....</b>	<b>6,376.6</b>	<b>155.4</b>	<b>2.4%</b>	<b>5,962.6</b>	<b>134.7</b>	<b>2.3%</b>	<b>5,524.3</b>	<b>129.3</b>	<b>2.3%</b>
Savings deposits .....	1,600.5	14.7	0.9%	1,611.7	15.6	1.0%	1,567.3	16.0	1.0%
Time deposits .....	3,197.4	108.5	3.4%	2,927.6	97.1	3.3%	2,652.5	91.1	3.4%

	For the year ended December 31, 2016			For the year ended December 31, 2015			For the year ended December 31, 2014		
	Average Balance	Interest Expense	Average Rate (%)	Average Balance	Interest Expense	Average rate (%)	Average Balance	Interest Expense	Average rate (%)
	<i>(Amounts in US\$ millions)</i>								
Interbank time deposits.....	382.2	2.8	0.7%	245.7	0.9	0.4%	174.7	0.5	0.3%
Borrowings .....	1,196.5	29.4	2.5%	1,177.6	21.1	1.8%	1,129.8	21.7	1.9%
<b>Average non-interest earning liabilities excluding demand deposits.....</b>	<b>325.0</b>	<b>0.0</b>	<b>0.0%</b>	<b>374.5</b>	<b>0.0</b>	<b>0.0%</b>	<b>403.8</b>	<b>0.0</b>	<b>0.0%</b>
Accumulated interest payable .....	39.2	0.0	0.0%	41.6	0.0	0.0%	38.2	0.0	0.0%
Deferred credits .....	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%
Other Liabilities .....	285.8	0.0	0.0%	332.9	0.0	0.0%	365.6	0.0	0.0%
<b>Average demand deposits<sup>(1)</sup> .....</b>	<b>1,379.0</b>	<b>0.0</b>	<b>0.0%</b>	<b>1,494.0</b>	<b>0.0</b>	<b>0.0%</b>	<b>1,512.6</b>	<b>0.0</b>	<b>0.0%</b>
Stockholders' equity.....	986.1	0.0	0.0%	914.3	0.0	0.0%	850.2	0.0	0.0%
<b>Average liabilities and stockholders' equity .....</b>	<b>9,066.7</b>	<b>155.4</b>	<b>1.7%</b>	<b>8,745.3</b>	<b>134.8</b>	<b>1.5%</b>	<b>8,291.0</b>	<b>129.3</b>	<b>1.6%</b>

(1) Includes interest-bearing and non-interest bearing demand deposits.

### Changes in Interest Income and Expense—Volume and Rate Analysis

The following table sets forth the allocation of the changes in our interest income and expense between changes in volume and changes in rates for the periods specified. Volume and rate variances have been calculated based on changes in the average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities.

	June 30, 2017/2016 Increase (decrease) due to change in:			December 31, 2016/2015 Increase (decrease) due to change in:			December 31, 2015/2014 Increase (decrease) due to change in:		
	Volume	Rate	Net Change	Volume	Rate	Net Change	Volume	Rate	Net Change
	<i>(Amounts in US\$ millions)</i>								
<b>Total interest-earning assets .....</b>	<b>12.4</b>	<b>12.9</b>	<b>25.3</b>	<b>22.0</b>	<b>21.7</b>	<b>43.7</b>	<b>37.0</b>	<b>(9.9)</b>	<b>27.1</b>
Central Bank deposits & interest-earning deposits in other banks.....	(0.4)	0.7	0.3	0.0	1.5	1.5	(0.9)	1.5	0.7
Investments .....	(0.2)	0.0	(0.2)	(1.6)	1.6	(0.0)	(1.5)	1.5	0.0
Performing loans.....	13.0	12.2	25.2	23.6	18.6	42.2	39.3	(12.9)	26.4
<b>Total interest-bearing liabilities .....</b>	<b>4.8</b>	<b>10.0</b>	<b>14.8</b>	<b>9.7</b>	<b>10.9</b>	<b>20.5</b>	<b>11.0</b>	<b>(5.5)</b>	<b>5.7</b>
Savings deposits.....	(0.2)	0.9	0.7	(0.1)	(0.9)	(1.0)	0.5	(0.8)	(0.3)
Time deposits.....	4.8	3.0	7.8	9.0	2.4	11.3	9.4	(3.4)	6.1
Interbank time deposits....	0.5	3.0	3.5	0.5	1.4	1.9	0.2	0.3	0.5
Borrowings .....	(0.3)	3.1	2.8	0.3	8.0	8.3	0.9	(1.6)	(0.6)

## Interest-Earning Assets and Interest-Bearing Liabilities—Yield and Yield Spread

The following table sets forth the levels of our average interest-earning assets, average interest-bearing liabilities, net interest income and gross and net yield and yield spread obtained, for each of the periods indicated.

	As of or for the six months ended June 30,		As of or for the years ended December 31,		
	2017	2016	2016	2015	2014
	<i>(Amounts in US\$ millions)</i>				
Total average interest-earning assets .....	8,792.3	8,481.6	8,549.2	8,192.7	7,814.0
Total average interest-bearing liabilities <sup>(1)</sup> .....	6,654.0	6,274.0	6,376.6	5,962.6	5,524.3
Interest income .....	247.5	222.2	456.5	412.8	385.7
Interest expense .....	88.0	73.2	155.4	134.8	129.3
Net interest income .....	159.5	149.0	301.1	278.0	256.4
Gross yield <sup>(2)</sup> .....	5.7%	5.3%	5.3%	5.0%	4.9%
Net yield <sup>(3)</sup> .....	3.7%	3.5%	3.5%	3.4%	3.3%
Yield spread <sup>(4)</sup> .....	3.0%	2.9%	2.9%	2.8%	2.6%

(1) Excluding interest-bearing demand deposits.

(2) Gross yield is interest income divided by Total average interest-earning assets.

(3) Net yield represents the total of net interest income divided by average interest-earning assets.

(4) Yield spread represents the difference between interest income annualized and interest expense annualized.

## Return on Equity and Assets

The following table shows selected financial data and selected financial ratios for the periods indicated.

	As of or for the six months ended June 30,		As of or for the years ended December 31,		
	2017	2016	2016	2015	2014
	<i>(Amounts in US\$ millions)</i>				
Net profit .....	41.6	32.1	45.8	94.7	76.8
Average total assets .....	9,274.3	9,020.6	9,066.9	8,743.0	8,290.5
Average stockholders' equity .....	1,030.5	972.3	986.1	914.3	850.2
Net profit as a percentage of average total assets .....	0.9%	0.7%	0.5%	1.1%	0.9%
Net profit as a percentage of average stockholders' equity .....	8.1%	6.6%	4.6%	10.4%	9.0%
Average stockholders' equity as a percentage of average total assets .....	11.1%	10.8%	10.9%	10.5%	10.3%

## Interest Rate Sensitivity of Assets and Liabilities

The regulations of the Superintendency of Banks provide the policy framework for interest risk management. Market practice in Panama is to have fixed and floating interest rates, using LIBOR marked to different dates. Interest rates in Panama are determined individually by lenders based on market conditions. The agreements for floating rate loans and demand and savings deposits specify the initial interest rate and state that the applicable interest rate may change depending on market conditions. We evaluate interest rates on a regular basis for all deposit products.

A key component of our risk management policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the repricing characteristics of assets and liabilities. For any given period, the pricing structure is matched when an equal amount of assets and liabilities reprice. Any excess of assets or liabilities over these matched items results in a repricing gap or net exposure. Depending on the date of such repricing of the assets or liabilities with a certain maturity date, net profit might be positively or negatively affected as a result of an increase or reduction in the market interest rates.

Our interest rate sensitivity strategy takes into account, among other things, the rates of return, the underlying degree of risk, and our internal interest rate policies. We constantly monitor interest rate and maturity mismatches and positions.

The following table sets forth our interest-earning assets and interest-bearing liabilities based on their respective repricing dates as of June 30, 2017. Variations in assets and liability gap may exist within the repricing period presented due to differing repricing dates within the period.

As of June 30, 2017	Less than 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
	<i>(Amounts in US\$)</i>				
<b>Interest-Earning Assets</b>					
Time deposits in banks .....	382,650,467	—	—	—	382,650,467
Investment securities.....	188,004,555	192,299,410	104,196,854	249,943,389	734,444,208
Loans, net.....	3,749,819,063	714,068,969	629,700,395	2,296,535,413	7,390,123,840
<b>Total Interest-Earning Assets .....</b>	<b>4,320,474,085</b>	<b>906,368,379</b>	<b>733,897,249</b>	<b>2,546,478,802</b>	
<b>Interest-Bearing Liabilities</b>					
Demand deposits <sup>(1)</sup> .....	20,865,492	—	—	—	20,865,492
Saving deposits .....	1,551,707,085	—	—	—	1,551,707,085
Time deposits.....	1,951,774,853	918,369,315	641,326,263	—	3,511,470,431
Interbank time deposits.....	383,021,365	62,986,312	102,182,368	—	548,190,045
Borrowings .....	1,193,280,114	—	—	—	1,193,280,114
<b>Total Interest-Bearing Liabilities .....</b>	<b>5,100,648,909</b>	<b>981,355,627</b>	<b>743,508,631</b>	—	
<b>Asset/liability gap.....</b>	<b>(780,174,824)</b>	<b>(74,987,248)</b>	<b>(9,611,382)</b>	<b>2,546,478,802</b>	

<sup>(1)</sup> Excluding non-interest-bearing demand deposits.

The following table sets forth our interest-earning assets and interest-bearing liabilities based on their respective repricing dates as of December 31, 2016. Variations in assets and liability gap may exist within the repricing period presented due to differing repricing dates within the period.

As of December 31, 2016	Less than 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Total
	<i>(Amounts in US\$)</i>				
<b>Interest-Earning Assets</b>					
Time deposits in banks .....	376,901,021	—	—	—	376,901,021
Investment securities.....	226,076,082	209,181,616	72,890,341	198,943,481	707,091,520
Loans, net.....	3,652,065,880	774,282,009	471,091,420	2,246,309,803	7,143,749,112
<b>Total Interest-Earning Assets .....</b>	<b>4,255,042,983</b>	<b>983,463,625</b>	<b>543,981,761</b>	<b>2,445,253,284</b>	
<b>Interest-Bearing Liabilities</b>					
Demand deposits <sup>(1)</sup> .....	23,579,542	—	—	—	23,579,542
Saving deposits .....	1,593,803,082	—	—	—	1,593,803,082
Time deposits.....	1,931,823,390	888,064,587	569,184,200	—	3,389,072,177
Interbank time deposits.....	346,666,861	2,518,318	50,025,000	—	399,210,179
Borrowings .....	1,184,771,659	—	—	—	1,184,771,659
<b>Total Interest-Bearing Liabilities .....</b>	<b>5,080,644,534</b>	<b>890,582,905</b>	<b>619,209,200</b>	—	
<b>Asset/liability gap.....</b>	<b>(825,601,551)</b>	<b>(92,880,720)</b>	<b>(75,227,439)</b>	<b>2,445,253,284</b>	

<sup>(1)</sup> Excluding non-interest-bearing demand deposits.

The portion of our interest-earning assets bearing interest at floating rates was 31.5% and 31.6%, respectively, as of June 30, 2017 and December 31, 2016. The portion of our interest-bearing liabilities at floating rates was 14.8% and 14.9%, respectively, as of June 30, 2017 and December 31, 2016.

The balance of interest-bearing liabilities, totaled US\$6,825.5 million as of June 30, 2017 and US\$6,590.4 million as of December 31, 2016. The portion of our interest-bearing liabilities consisting of demand deposits, savings deposits, time deposits and interbank time deposits as of June 30, 2017 and December 31, 2016 was 82.5% (or US\$5,632.2 million) and 82.0% (or US\$5,405.7 million), respectively. As of June 30, 2017, the remaining 17.5% (or US\$1,193.3 million) of our interest-bearing liabilities consisted of borrowings. As of December 31, 2016, the remaining 18.0% of our interest-bearing liabilities (or US\$1,184.8 million) consisted of borrowings.

## Deposit Balances and Interest Rates

The following table shows average balances of interest-bearing deposits we held and the average interest rates thereon for the periods indicated.

	As of June 30, 2017		As of June 30, 2016		For the year ended December 31, 2016		For the year ended December 31, 2015		For the year ended December 31, 2014	
	Average Balance	Average Rate %	Average Balance	Average Rate %	Average Balance	Average Rate %	Average Balance	Average Rate %	Average Balance	Average Rate %
<i>(Amounts in US\$ millions)</i>										
<b>Interest-bearing deposits</b>										
Demand deposits <sup>(1)</sup> .....	26.5	0.1%	23.1	0.1%	31.2	0.1%	32.9	0.1%	35.0	0.1%
Savings deposits .....	1,584.4	1.0%	1,641.3	0.9%	1,600.5	0.9%	1,611.7	1.0%	1,567.3	1.0%
Time deposits .....	3,434.8	3.5%	3,141.3	3.3%	3,197.4	3.4%	2,927.6	3.3%	2,652.5	3.4%
<b>Total</b> .....	<b>5,045.7</b>	<b>2.7%</b>	<b>4,805.7</b>	<b>2.5%</b>	<b>4,829.1</b>	<b>2.6%</b>	<b>4,572.2</b>	<b>2.5%</b>	<b>4,254.8</b>	<b>2.5%</b>

<sup>(1)</sup> Excluding demand deposits with 0% interest rate.

Our total deposits are comprised of demand deposits, savings deposits and time deposits. Demand deposits are checking accounts and, as of June 30, 2017, only 0.5% of such accounts, mostly held by customers in our Corporate & Government division, bear interest. Savings deposits are savings accounts on which checks cannot be issued, and on average bear higher interest rates than demand deposits. Time deposits are fixed-term accounts that earn higher interest rates than demand deposits and savings accounts.

The average balance of our total interest-bearing deposits as of June 30, 2017 was US\$5,045.7 million, compared to US\$4,805.7 million as of June 30, 2016, a 5.0% increase. This increase was primarily due to a 9.3% increase in the average balance of time deposits. The average balance of our total interest-bearing deposits in 2016 was US\$4,829.1 million, compared to US\$4,572.2 million in 2015 and US\$4,254.8 million in 2014, a 5.6% and 7.5% increase, respectively. This increase was primarily due to a 9.2% increase in the average balance of time deposits in 2016 compared to 2015 and a 10.4% increase in the average balance of time deposits in 2015 compared to 2014.

## Minimum Deposits with *Banco Nacional de Panamá*

Panamanian banks must maintain a non-interest bearing special compensation account with *Banco Nacional de Panamá*, a state-owned bank, for the purpose of check clearing among the banks of the National Banking System. Transfers and deposits in such account will only be allowed in order to cover negative balances in daily reconciliations. Results of the transfer of documents and amounts used to pay or withdraw balances after the transfer will be recorded in this account.

Every day, each bank must have on deposit a balance equal to 100% of the daily average in U.S. dollars of the total amount of checks that other banks affiliated with the special compensation account deposit against such bank. In order to comply with this requirement, the affiliated banks will be guided by the daily average of the prior six-month period.

If a bank does not deposit the required amounts in its special compensation account, such bank must deposit, on the next business day, no later than 8.30 a.m., the necessary amounts in order to cover for overdrafts or balances in order to reach the minimum balance, as instructed by the *Banco Nacional de Panamá*. If the bank does not take action in order to remedy the situation within the stated timeframe, actions will be taken by the Superintendency of Banks, when informed by the *Banco Nacional de Panamá*, in order to refuse payment of checks issued from accounts opened in such entity.

The amount of reserve deposits required by the *Banco Nacional de Panamá* is updated monthly. The following chart sets forth the amount of reserve deposits with *Banco Nacional de Panamá* as of the dates indicated.

	<u>As of June 30,</u> <u>2017</u>	<u>As of June 30,</u> <u>2016</u>	<u>As of December 31,</u>		
			<u>2016</u>	<u>2015</u>	<u>2014</u>
	<i>(Amounts in US\$ millions)</i>				
Balance with the <i>Banco Nacional de Panamá</i> .....	32.7	47.7	50.2	48.0	49.4

### **Borrowings**

The total amounts outstanding as of June 30, 2017 and June 30, 2016, in borrowings, including interest, from our correspondent banks for trade finance and the management of liquidity were:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
		<i>(Amounts in US\$ millions)</i>
Obligations with institutions for financing of foreign trade, with various maturities up to December 2017 and interest rates between 1.80% and 2.15% .....	185.1	217.6
Obligations with foreign financial institutions for the management of short- and medium-term liquidity with various maturities up to April 2020 and interest rates between 1.35% and 3.67%.....	912.9	915.6
Obligations with local financial institutions for the management of short- and medium-term maturities up to December 2018 and interest rates between 2.87% and 4.02% .....	55.2	65.3
Obligations with multilateral entities for long-term liquidity management, maturing through November 2018 and interest rates averaging 3.08% .....	40.1	40.0
	<u><b>1,193.3</b></u>	<u><b>1,238.5</b></u>

The total amounts outstanding as of December 31, 2016, December 31, 2015 and December 31, 2014, in borrowings, including interest, from our correspondent banks for trade finance and liquidity were:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
		<i>(Amounts in US\$ millions)</i>	
Obligations with institutions for financing of foreign trade, with various maturities up to 2017 and interest rates between 1.50% and 1.89% .....	138.4	166.5	82.8
Obligations with foreign financial institutions for the management of short- and medium-term liquidity with various maturities up to July 2018 and interest rates between 1.00% and 3.11%.....	964.3	844.0	811.0
Obligations with local financial institutions for the management of short- and medium-term maturities up to December 2018 and interest rates between 2.52% and 3.74%.....	42.1	42.7	90.3

	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(Amounts in US\$ millions)</i>		
Obligations with multilateral entities for long-term liquidity management, maturing through November 2018 and interest rates averaging 2.81% .....	40.0	40.0	40.0
	<u><b>1,184.8</b></u>	<u><b>1,093.1</b></u>	<u><b>1,024.1</b></u>

## Securities Portfolio

The Superintendency of Banks established rules for risk management that Panamanian banks must follow to comply with the provisions of the Banking Law. Such rules include portfolio classifications, accounting of investments and valuation of the securities.

In general terms, our investment portfolio is focused on high liquidity and investment grade securities, which allows us to comply with regulatory liquidity and solvency requirements.

The chart below sets forth our investment portfolio as of June 30, 2017 and 2016 and as of December 31, 2016, 2015 and 2014.

	<u>As of June 30,</u>				<u>As of December 31,</u>					
	<u>2017</u>		<u>2016</u>		<u>2016</u>		<u>2015</u>		<u>2014</u>	
	<i>(Amounts in US\$ millions)</i>									
	Total	%	Total	%	Total	%	Total	%	Total	%
<b>Securities at Fair Value</b>										
<b>Through Profit or Loss</b>										
Treasury letters .....	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%
Corporate bonds .....	31.8	44.0%	32.7	36.0%	32.0	26.5%	32.8	16.5%	5.7	2.6%
United Mexican States bonds .....	4.2	5.9%	12.3	13.0%	57.3	47.6%	115.7	58.3%	172.9	80.4%
United States of America bonds .....	4.0	5.6%	8.1	9.0%	11.8	9.8%	7.9	4.0%	0.0	0.0%
Republic of Panama bonds .....	19.6	27.1%	18.2	20.0%	10.3	8.5%	15.9	8.0%	15.3	7.1%
Republic of Costa Rica bonds .....	10.6	14.6%	20.1	22.0%	9.2	7.6%	26.3	13.2%	18.9	8.8%
Republic of Colombia bonds .....	2.0	2.7%	0.0	0.0%	0	0.0%	0.0	0.0%	2.3	1.1%
	<u><b>72.3</b></u>	<u><b>100.0%</b></u>	<u><b>91.3</b></u>	<u><b>100.0%</b></u>	<u><b>120.6</b></u>	<u><b>100.0%</b></u>	<u><b>198.6</b></u>	<u><b>100.0%</b></u>	<u><b>215.0</b></u>	<u><b>100.0%</b></u>
<b>Securities Available for Sale at Fair Value</b>										
Corporate bonds .....		0.0%	0.0	0.0%			-	0.0%	13.5	2.5%
Republic of Panama bonds .....	297.7	51.3%	259.0	51.0%	262.6	51.8%	272.4	47.0%	323.9	59.4%
Republic of Colombia bonds .....	0.0	0.0%	43.8	9.0%	42.5	8.4%	44.5	7.7%	34.2	6.3%
United Mexican States bonds .....	0.0	0.0%	52.8	10.0%	3.3	0.7%	36.5	6.3%	11.7	2.1%
United States of America bonds .....	184.9	31.8%	55.4	11.0%	94.9	18.7%	128.4	22.2%	34.9	6.4%
Certificate of participation (CERPAN – <i>Certificado de Participación Negociable</i> ) .....	72.2	12.4%	78.8	16.0%	75.7	14.9%	83.3	14.4%	110.3	20.2%
Equity shares .....	25.9	4.5%	14.3	3.0%	28.2	5.6%	14.2	2.5%	16.9	3.1%
	<u><b>580.6</b></u>	<u><b>100.0%</b></u>	<u><b>504.0</b></u>	<u><b>100.0%</b></u>	<u><b>507.3</b></u>	<u><b>100.0%</b></u>	<u><b>579.3</b></u>	<u><b>100.0%</b></u>	<u><b>545.5</b></u>	<u><b>100.0%</b></u>
<b>Securities Held to Maturity</b>										
Corporate bonds .....	<u><b>107.5</b></u>	<u><b>100.0%</b></u>	<u><b>92.5</b></u>	<u><b>100.0%</b></u>	<u><b>107.5</b></u>	<u><b>100.0%</b></u>	<u><b>92.5</b></u>	<u><b>100.0%</b></u>	<u><b>0.0</b></u>	<u><b>0.0%</b></u>
<b>Total</b> .....	<u><b>760.3</b></u>		<u><b>687.9</b></u>		<u><b>735.3</b></u>		<u><b>870.5</b></u>		<u><b>760.1</b></u>	

## Maturity Distribution

The following table presents the maturities of our debt investment securities as of June 30, 2017 for our securities portfolio.

	<u>As of June 30, 2017</u>					
	<u>Due in 1 year or less Balance</u>	<u>Due after 1 to 5 years Balance</u>	<u>Due after 5 to 10 years Balance</u>	<u>Due after 10 years Balance</u>	<u>No maturity</u>	<u>Total</u>
	<i>(Amounts in US\$ millions)</i>					
<b>Securities at Fair Value Through Profit or Loss</b>						
Corporate bonds .....	4.0	18.6	6.6	2.6	—	31.8

	<b>As of June 30, 2017</b>					
	<b>Due in 1 year or less Balance</b>	<b>Due after 1 to 5 years Balance</b>	<b>Due after 5 to 10 years Balance</b>	<b>Due after 10 years Balance</b>	<b>No maturity</b>	<b>Total</b>
	<i>(Amounts in US\$ millions)</i>					
United Mexican States bonds.....	—	1.1	3.1	—	—	4.2
United States of America bonds.....	2.0	—	2.0	—	—	4.0
Republic of Panama bonds.....	1.4	8.2	10.0	—	—	19.6
Republic of Costa Rica bonds.....	1.0	3.5	6.0	—	—	10.6
Republic of Colombia bonds .....	—	—	2.0	—	—	2.0
	<u>8.4</u>	<u>31.5</u>	<u>29.7</u>	<u>2.6</u>	<u>—</u>	<u>72.3</u>
<b>Securities Available-for-Sale at Fair Value</b>						
Corporate bonds.....	—	—	—	—	—	—
Republic of Panama bonds.....	69.3	100.2	128.2	—	—	297.7
Republic of Colombia bonds .....	—	—	—	—	—	—
United Mexican States bonds.....	—	—	—	—	—	—
United States of America bonds.....	90.0	94.8	—	—	—	184.9
Certificate of participation (CERPAN).....	20.2	35.2	13.2	3.5	—	72.2
Equity shares.....	—	—	—	—	25.9	25.9
	<u>179.4</u>	<u>230.3</u>	<u>141.4</u>	<u>3.5</u>	<u>25.9</u>	<u>580.6</u>
<b>Securities Held-to-Maturity</b> .....						
Corporate bonds.....	—	35.0	57.5	15.0	—	107.5
<b>Sub-total</b> .....	<u>187.9</u>	<u>296.8</u>	<u>228.5</u>	<u>21.2</u>	<u>25.9</u>	<u>760.3</u>

The following table presents the maturities of our debt investment securities as of December 31, 2016 for our securities portfolio.

	<b>As of December 31, 2016</b>					
	<b>Due in 1 year or less Balance</b>	<b>Due after 1 to 5 years Balance</b>	<b>Due after 5 to 10 years Balance</b>	<b>Due after 10 years Balance</b>	<b>No maturity</b>	<b>Total</b>
	<i>(Amounts in US\$ millions)</i>					
<b>Securities at Fair Value Through Profit or Loss</b>						
Corporate bonds.....	5.6	20.1	6.4	—	—	32.0
United Mexican States bonds.....	57.3	—	—	—	—	57.3
United States of America bonds.....	—	6.0	5.8	—	—	11.8
Republic of Panama bonds.....	—	6.2	3.1	1.0	—	10.3
Republic of Costa Rica bonds.....	6.2	—	2.9	—	—	9.2
Republic of Colombia bonds .....	—	—	—	—	—	—
	<u>69.1</u>	<u>32.3</u>	<u>18.1</u>	<u>1.0</u>	<u>—</u>	<u>120.6</u>
<b>Securities Available-for-Sale at Fair Value</b>						
Corporate bonds.....	—	—	—	—	—	—
Republic of Panama bonds.....	—	158.4	104.2	—	—	262.6
Republic of Colombia bonds .....	42.5	—	—	—	—	42.5
United Mexican States bonds.....	—	3.3	—	—	—	3.3
United States of America bonds.....	45.0	49.8	—	—	—	94.9
Certificate of participation (CERPAN).....	19.0	38.6	14.1	4.1	—	75.7
Equity shares.....	—	—	—	—	28.2	28.2
	<u>106.5</u>	<u>250.1</u>	<u>118.3</u>	<u>4.1</u>	<u>28.2</u>	<u>507.3</u>
<b>Securities Held-to-Maturity</b> .....						
Corporate bonds.....	—	—	92.5	15.0	—	107.5
<b>Sub-Total</b> .....	<u>175.64</u>	<u>282.39</u>	<u>228.95</u>	<u>20.11</u>	<u>28.24</u>	<u>735.33</u>

## Loan Portfolio

We offer our products and services through our two client facing divisions: Retail & SMEs banking division and Corporate & Government banking division (see “*Business–Lines of Business*”). As of June 30, 2017, our Retail & SMEs banking division accounts for 54.5% of our total loan portfolio, whereas our Corporate & Government banking division accounts for the remaining 45.5% of our total loan portfolio. Our loan portfolio is diversified in terms of the economic sectors in Panama, with borrowers distributed among the consumer, mortgage, industry, commerce, real estate and services sectors, among others.

The following table sets forth our loan portfolio by type of loan and economic activity as of the dates indicated therein. Percentages are percentages of gross loans less net fees plus interest receivable.

<b>Banistmo S.A. and Subsidiaries</b>				
<b>At June 30,</b>				
	<b>2017</b>		<b>2016</b>	
	<i>(Amounts in US\$ millions)</i>			
<b>Corporate &amp; Government</b>	<b>3,426.5</b>	<b>45.5%</b>	<b>3,288.6</b>	<b>46.4%</b>
Commercial .....	709.0	9.4%	645.5	9.1%
Construction.....	1,319.0	17.5%	1,040.3	14.7%
Government .....	58.3	0.8%	173.2	2.4%
Industrial.....	550.7	7.3%	413.3	5.8%
Offshore.....	359.5	4.8%	477.5	6.7%
Colon Free Zone .....	430.1	5.7%	538.9	7.6%
<b>Retail &amp; SMEs</b> .....	<b>4,105.0</b>	<b>54.5%</b>	<b>3,806.1</b>	<b>53.6%</b>
SME.....	511.8	6.8%	410.1	5.8%
Personal Loans.....	653.0	8.7%	639.7	9.0%
Financomer .....	123.8	1.6%	112.2	1.6%
Vehicles .....	142.6	1.9%	177.5	2.5%
Credit cards.....	240.6	3.2%	208.9	2.9%
Other products .....	246.2	3.3%	232.6	3.3%
<b>Residential Mortgages</b> .....	<b>2,187.0</b>	<b>29.0%</b>	<b>2,025.2</b>	<b>28.5%</b>
<b>Gross loans less net fees plus interest receivables</b> .....	<b>7,531.5</b>	<b>100.0%</b>	<b>7,094.8</b>	<b>100.0%</b>
Allowance for loan-losses <sup>(1)</sup> .....	141.4	1.9%	91.0	1.3%

<sup>(1)</sup> Excludes recovery reserves on interest receivables.

<b>Banistmo S.A. and Subsidiaries</b>						
<b>As of December 31,</b>						
	<b>2016</b>		<b>2015</b>		<b>2014</b>	
	<i>(Amounts in US\$ millions)</i>					
<b>Corporate &amp; Government</b> .....	<b>3,198.9</b>	<b>44.0%</b>	<b>3,290.5</b>	<b>48.2%</b>	<b>3,173.2</b>	<b>50.6%</b>
Commercial .....	635.4	8.8%	701.9	10.3%	1,163.5	18.6%
Construction .....	1,117.9	15.4%	1,005.6	14.7%	956.5	15.3%
Government .....	168.3	2.3%	128.0	1.9%	107.6	1.7%
Industrial.....	405.7	5.6%	497.8	7.31%	-	0.0%
Offshore.....	424.0	5.8%	441.3	6.5%	546.9	8.7%
Colon Free Zone .....	447.5	6.2%	515.9	7.6%	398.6	6.4%
<b>Retail &amp; SMEs</b> .....	<b>4,067.0</b>	<b>56.0%</b>	<b>3,530.2</b>	<b>51.8%</b>	<b>3,098.0</b>	<b>49.4%</b>
SME.....	505.3	7.0%	376.0	5.5%	321.9	5.1%
Personal Loans.....	762.8	10.5%	619.3	9.1%	572.1	9.1%
Financomer.....	117.4	1.6%	101.1	1.5%	92.7	1.5%
Vehicles .....	160.8	2.2%	179.5	2.6%	154.4	2.4%
Credit cards.....	239.3	3.3%	189.8	2.8%	169.8	2.7%
Other products .....	141.6	2.0%	197.5	2.9%	150.1	2.4%
<b>Residential Mortgages</b> .....	<b>2,139.7</b>	<b>29.5%</b>	<b>1,867.0</b>	<b>27.3%</b>	<b>1,637.0</b>	<b>26.1%</b>
<b>Gross loans less net fees plus interest receivables</b> .....	<b>7,265.9</b>	<b>100.0%</b>	<b>6,820.6</b>	<b>100.0%</b>	<b>6,271.3</b>	<b>100.0%</b>
Allowance for loan-losses <sup>(1)</sup> .....	122.1	1.7%	66.3	1.0%	62.5	1.0%

<sup>(1)</sup> Excludes recovery reserves on interest receivables.

The average yield on our performing loan portfolio for the six-month period ended June 30, 2017 was 6.6%, compared to 6.0% in the six-month period ended June 30, 2016. This increase in the average yield on our loan portfolio resulted mainly from an increase in the interest rate of commercial loans from 5.0% to 5.6%. The average

yield on our performing loan portfolio for the year ended December 31, 2016 was 6.1%, compared to 5.8% and 6.0% in the year ended December 31, 2015 and 2014, respectively.

Our loan-loss reserve coverage over non-performing loans was 72.0% as of June 30, 2017 as compared to 58.7% as of June 30, 2016, whereas our loan-loss reserve coverage over non-performing loans was 79.2% as of December 31, 2016 as compared to 53.9% as of December 31, 2015 and 60.3% as of December 31, 2014. The increase between 2015 and 2016 was primarily a result of a deterioration of clients within our Retail & SMEs portfolio and construction clients within our Corporate & Government portfolio. The decrease between 2014 and 2015 was primarily a result of an increase in non-performing loans in Residential Mortgages loans and Colon Free Zone loans.

Our gross loan portfolio (less net fees plus interest receivables) increased to US\$7,531.5 million as of June 30, 2017, compared to US\$7,094.8 million as of June 30, 2016, which represented an increase of 6.2% over the gross loan portfolio reported in the prior year and 3.7% when compared with December 31, 2016 respectively. Such increase in our gross loan portfolio was due to a strong growth in our Corporate & Government loan portfolio, which grew by 4.19% as of June 30, 2017 compared to June 30, 2016, as a result of an increase in real estate projects, and a growth in our Residential Mortgage portfolio, which grew by 7.9% as of June 30, 2017 compared to June 30, 2016, as a result of increased government subsidies in the residential mortgage market. Our gross loan portfolio (less net fees plus interest receivables) increased to US\$7,265.9 million as of December 31, 2016, compared to US\$6,820.6 million as of December 31, 2015 and US\$6,271.3 million as of December 31, 2014, which represented an increase of 6.5% and 8.8% respectively over the gross loan portfolio reported in the prior year. The reasons for such increases are mainly explained by the increases, throughout the three years, in our Commercial loan portfolio, Credit Cards portfolio and Residential Mortgage loan portfolio.

The following tables set forth our market share and ranking based on net loans on a stand-alone basis as of December 31, 2016:

	As of December 31, 2016			As of December 31, 2015			As of December 31, 2014		
	Balance	Market Share	Ranking	Balance	Market Share	Ranking	Balance	Market Share	Ranking
	(US\$ millions)	(%)		(US\$ millions)	(%)		(US\$ millions)	(%)	
Banco General .....	9,760.8	15.1%	1	8,811.9	14.3%	1	9,207.1	16.2%	1
<b>Banistmo .....</b>	<b>6,958.9</b>	<b>10.8%</b>	<b>2</b>	<b>6,619.9</b>	<b>10.7%</b>	<b>3</b>	<b>5,686.1</b>	<b>10.7%</b>	<b>3</b>
BLADEX .....	5,974.6	9.3%	3	6,689.5	10.8%	2	6,683.8	10.8%	3
Global Bank .....	5,411.7	8.4%	4	4,836.8	7.9%	4	2,841.1	7.9%	4
Banco Nacional.....	3,551.8	5.5%	5	3,429.3	5.6%	5	3,121.9	5.6%	5
BAC.....	3,511.4	5.4%	6	3,209.7	5.2%	6	2,864.4	5.2%	6
Banesco .....	2,660.8	4.5%	7	2,642.0	4.3%	8	3,207.8	4.3%	8
Bank of China.....	2,878.7	4.2%	8	2,679.9	4.4%	7	1,410.7	4.4%	7
Multibank .....	2,708.2	4.1%	9	2,452.2	4.0%	9	2,161.2	4.0%	9
Scotiabank .....	2,659.2	4.1%	10	2,348.1	3.8%	10	1,225.3	3.8%	10
<b>TOTAL BANKING SYSTEM .....</b>	<b>64,524.9</b>			<b>61,605.0</b>			<b>81,121.9</b>		

Source: Superintendency of Banks

### Loans and Leases by Type of Borrower and by Maturity

The following table illustrates the distribution of our gross loan portfolio less net fees plus interest receivable by maturity for each customer type as of June 30, 2017 and December 31, 2016.

	Banistmo S.A. and Subsidiaries								As a % of gross loans
	As of June 30, 2017								
	< 30 days	30-90 days	90 days-1 year	< 1 year	1-2 years	2-5 years	> 5 years	Total	
	<i>(Amounts in US\$ millions)</i>								
<b>Corporate &amp; Government</b>	272.5	402.6	895.4	<b>1,570.5</b>	470.4	680.8	704.8	<b>3,426.5</b>	45.5%
<b>Retail &amp; SMEs</b>									
Consumer .....	32.9	61.4	206.4	<b>300.7</b>	187.1	569.2	861.0	<b>1,918.0</b>	25.5%

**Banistmo S.A. and Subsidiaries**  
As of June 30, 2017

	< 30 days	30- 90 days	90 days- 1 year	< 1 year	1-2 years	2-5 years	> 5 years	Total	As a % of gross loans
	<i>(Amounts in US\$ millions)</i>								
Residential mortgages .....	0.1	0.0	0.4	<b>0.5</b>	1.5	13.3	2,171.7	<b>2,187.0</b>	29.0%
<b>Gross loans</b>									
less net fees									
plus interest									
receivable .....	<b>305.5</b>	<b>464.0</b>	<b>1,102.2</b>	<b>1,871.7</b>	<b>658.9</b>	<b>1,263.3</b>	<b>3,737.5</b>	<b>7,531.5</b>	<b>100.0%</b>

**Banistmo S.A. and Subsidiaries**  
As of December 31, 2016

	< 30 days	30- 90 days	90 days- 1 year	< 1 year	1-2 years	2-5 years	> 5 years	Total	As a % of gross loans
	<i>(Amounts in US\$ millions)</i>								
<b>Corporate &amp; Government</b>	216.6	572.0	776.7	<b>1,565.3</b>	448.9	707.2	477.5	<b>3,198.9</b>	44.0%
<b>Retail &amp; SMEs</b>									
Consumer .....	36.9	43.1	177.1	<b>257.0</b>	212.3	574.1	883.8	<b>1,927.3</b>	26.5%
Residential mortgages .....	0.1	0.3	0.7	<b>1.1</b>	3.0	13.2	2,122.5	<b>2,139.7</b>	29.4%
<b>Gross loans</b>									
less net fees									
plus interest									
receivable .....	<b>253.6</b>	<b>615.4</b>	<b>954.5</b>	<b>1,823.4</b>	<b>664.2</b>	<b>1,294.4</b>	<b>3,483.8</b>	<b>7,265.9</b>	<b>100.0%</b>

The following tables sets forth our market share and ranking based on corporate loans on a stand-alone basis as of December 31, 2016:

	As of December 31, 2016		
	Balance <i>(US\$ millions)</i>	Market Share <i>(%)</i>	Ranking
Banco General .....	4,076.4	15.9%	1
<b>Banistmo</b> .....	<b>3,312.4</b>	<b>12.9%</b>	<b>2</b>
Global Bank .....	2,925.9	11.4%	3
Banco Nacional .....	1,752.3	6.8%	4
The Bank of Nova Scotia .....	1,739.3	6.8%	5
Multibank .....	1,421.5	5.5%	6
Aliado .....	1,153.3	4.5%	7
BAC .....	1,149.0	4.5%	8
Banesco .....	1,046.2	4.1%	9
Capital Bank .....	689.5	2.7%	10
<b>Total Banking System</b> .....	<b>25,637.8</b>		

Source: Superintendency of Banks

The following table sets forth our market share and ranking based on consumer loans on a stand-alone basis as of December 31, 2016:

	As of December 31, 2016		
	Balance <i>(US\$ millions)</i>	Market Share <i>(%)</i>	Ranking
Banco General .....	5,086.6	22.1%	1
<b>Banistmo</b> .....	<b>3,313.5</b>	<b>14.4%</b>	<b>2</b>
BAC .....	2,153.2	9.4%	3
Caja de Ahorros .....	2,141.2	9.3%	4
Banco Nacional .....	1,824.9	7.9%	5
Global Bank .....	1,795.7	7.8%	6
Banesco .....	987.3	4.3%	7
The Bank of Nova Scotia .....	918.3	4.2%	8

	As of December 31, 2016		
	Balance (US\$ millions)	Market Share (%)	Ranking
Multibank .....	967.5	4.0%	9
Credicorp .....	802.6	3.5%	10
<b>Total Banking System</b> .....	<b>22,991.4</b>		

Source: Superintendency of Banks

The following table sets forth our market share and ranking based on residential mortgages on a stand-alone basis as of December 31, 2016:

	As of December 31, 2016		
	Balance (US\$ millions)	Market Share (%)	Ranking
Banco General .....	3,406.5	26.6%	1
<b>Banistmo</b> .....	<b>2,133.7</b>	<b>16.7%</b>	<b>2</b>
Caja de Ahorros .....	1,234.5	9.6%	3
Global Bank.....	989.7	7.7%	4
Banco Nacional.....	860.9	6.7%	5
The Bank of Nova Scotia .....	822.5	6.4%	6
BAC.....	678.8	5.3%	7
Banesco.....	599.8	4.7%	8
Banvivienda.....	461.3	3.6%	9
Multibank .....	423.6	3.3%	10
<b>Total Banking System</b> .....	<b>12,794.1</b>		

Source: Superintendency of Banks

### Loans by Geographic Concentration

Ninety-five percent of our loan portfolio is concentrated in Panama and the remaining five percent in countries in Latin America and North America. Of our 20 largest loan customers by exposure, 17 are Panamanian, two are in Costa Rica and one in Guatemala.

### Non-Performing Loan Portfolio

Except where otherwise specified, the financial and statistical information in this subsection “*Non-Performing Loan Portfolio*” is provided on a consolidated basis.

In assessing the performance of our loan portfolio and calculating our allowance for loan-losses, we review the borrower’s ability to repay the loan, financial and behavioral information, qualitative variables, collateral and historical parameters such as recovery rates. A loan is considered non-performing after all or a portion of the principal or interest owed is overdue for more than 90 days, or when we have decided to resort to legal action for collection or have accelerated amounts for breach by the borrower.

The following table sets forth an analysis of non-performing loans distributed by economic sector and of our mandatory loss reserves as of the dates indicated:

	Banistmo S.A. and Subsidiaries As of June 30,			
	2017	(Amounts in US\$ millions)		2016
<b>Corporate &amp; Government</b> .....	<b>66.6</b>	<b>33.9%</b>	<b>58.1</b>	<b>37.5%</b>
Commercial .....	1.0	0.5%	4.6	2.9%
Construction .....	55.1	28.1%	40.2	25.9%
Government .....	—	0.0%	—	0.0%
Industry.....	1.8	0.9%	—	0.0%
Offshore.....	—	0.0%	—	0.0%

<b>Banistmo S.A. and Subsidiaries</b>				
<b>As of June 30,</b>				
	<b>2017</b>	<i>(Amounts in US\$ millions)</i>		<b>2016</b>
Free Zone.....	8.6	4.4%	13.4	8.6%
<b>Retail &amp; SMEs.....</b>	<b>129.7</b>	<b>66.1%</b>	<b>96.9</b>	<b>62.5%</b>
SME .....	25.7	13.1%	14.9	9.6%
Personal Loans .....	18.3	9.3%	17.1	11.1%
Financomer .....	3.6	1.8%	4.1	2.7%
Vehicles .....	2.3	1.2%	2.7	1.7%
Credit cards .....	11.1	5.7%	7.0	4.5%
Other products .....	2.2	1.1%	1.5	1.0%
Residential Mortgages .....	66.5	33.9%	49.7	32.0%
<b>NPLs.....</b>	<b>196.4</b>	<b>100.0%</b>	<b>155.1</b>	<b>100.0%</b>
Mandatory loss reserves.....	141.4		91.0	
Voluntary loss reserves.....				
<b>Total loss reserves.....</b>	<b>141.4</b>		<b>91.0</b>	
<b>NPL Coverage Ratio.....</b>	<b>72.0%</b>		<b>58.7%</b>	

<b>Banistmo S.A. and Subsidiaries</b>						
<b>As of December 31,</b>						
	<b>2016</b>		<b>2015</b>		<b>2014</b>	
	<i>(Amounts in US\$ millions)</i>					
<b>Corporate &amp; Government.....</b>	<b>45.1</b>	<b>29.2%</b>	<b>35.5</b>	<b>28.8%</b>	<b>28.1</b>	<b>27.1%</b>
Commercial .....	0.4	0.2%	4.9	4.0%	3.2	3.0%
Construction .....	32.6	21.2%	17.5	14.2%	2.3	2.2%
Government .....	—	0.0%	—	0.0%	—	0.0%
Industry.....	1.5	1.0%	—	0.0%	—	0.0%
Offshore.....	—	0.0%	—	0.0%	18.4	17.7%
Free Zone.....	10.6	6.9%	13.0	10.6%	4.2	4.1%
<b>Retail &amp; SMEs.....</b>	<b>109.1</b>	<b>70.8%</b>	<b>87.5</b>	<b>71.2%</b>	<b>75.6</b>	<b>72.9%</b>
SME .....	24.5	15.9%	14.6	11.9%	13.9	13.4%
Personal Loans .....	17.2	100.0 %	13.6	11.0%	12.6	12.1%
Financomer .....	0.3	0.2%	4.2	3.4%	4.0	3.9%
Vehicles .....	3.0	1.9%	2.8	2.3%	2.4	2.3%
Credit cards .....	9.7	6.3%	4.9	3.9%	4.2	4.1%
Other products .....	1.3	0.9%	1.1	0.9%	1.5	1.4%
Residential Mortgages .....	53.1	34.4%	46.4	37.7%	37.0	35.7%
<b>NPLs.....</b>	<b>154.2</b>	<b>100.0%</b>	<b>123.0</b>	<b>100.0%</b>	<b>103.7</b>	<b>100.0%</b>
Mandatory loss reserves.....	122.1		66.3		62.5	
Voluntary loss reserves.....	—		—		—	
<b>Total loss reserves.....</b>	<b>122.1</b>		<b>66.3</b>		<b>62.5</b>	
<b>NPL Coverage Ratio.....</b>	<b>79.2%</b>		<b>53.9%</b>		<b>60.3%</b>	

Non-performing loans increased by US\$41.3 million to US\$196.4 million as of June 30, 2017 from US\$155.1 million as of June 30, 2016. Such increase was the result of certain specific clients in our Colon Free Zone and Construction segments. Our coverage ratio was 72.0% as of June 30, 2017 and 58.7% as of June 30, 2016. The increase of our coverage ratio was because of our increase in allowances.

Non-performing loans increased by US\$31.2 million from 2015 to 2016 mainly due to a construction customer loan of US\$19.0 million, in which the customer has not been able to recover overcharges relating to the project and to the increase in delinquency in credit cards, residential mortgages and personal loans. Our coverage ratio was 79.2% in 2016, 53.9% in 2015 and 60.3% in 2014.

## Risk Categories

The Superintendency of Banks requires that banks submit a monthly report containing a classification of the loan portfolio by risk categories. In addition to such classification, we also have an internal classification methodology.

### *Classification required by the Superintendency of Banks*

The Superintendency of Banks requires that our loan portfolio be classified in the following risk categories: (A) Normal, (B) Special Mention, (C) Subnormal, (D) Doubtful and (E) Unrecoverable. The banking regulations set out clear requirements intended to achieve consistent credit classifications across the banking industry, including by assessing the loans based on which banking portfolio they fall into (*i.e.*, Commercial, Retail or Residential Mortgage). The loan portfolio categories established by the Superintendency of Banks, and discussed in this section, differ from the categories developed by us and presented throughout this Offering Memorandum.

The following tables sets forth the distribution of our loan portfolio as “Commercial,” “Retail” or “Mortgage” under the Superintendency of Banks’ categories.

As of June 30, 2017	Risk Classification					Total
	Normal	Special Mention	Subnormal	Doubtful	Unrecoverable	
<b>Loan Portfolio</b>						
	<i>(Amounts in millions of US\$)</i>					
<b>Corporate &amp; Government</b>						
Commercial .....	682.3	20.5	0.7	5.5	0.0	709.0
Construction .....	1,222.2	64.2	0.0	32.6	0.0	1,319.0
Industrial .....	531.3	15.3	0.0	4.2	0.0	550.7
Offshore .....	359.5	0.0	0.0	0.0	0.0	359.5
Colon Free Zone .....	363.0	36.5	12.9	3.5	14.1	430.1
Government .....	58.2	0.0	0.0	0.0	0.0	58.2
<b>Total Corporate &amp; Government</b> .....	<b>3,216.5</b>	<b>136.4</b>	<b>13.6</b>	<b>45.8</b>	<b>14.1</b>	<b>3,426.5</b>
<b>Retail &amp; SMEs</b>						
SME .....	446.2	25.2	15.5	19.9	4.9	511.8
Personal Loans .....	614.4	12.4	8.0	17.4	0.9	653.0
Financomer .....	113.4	4.1	2.6	3.5	0.0	123.8
Vehicles .....	128.9	8.8	2.5	2.3	0.1	142.6
Credit cards .....	219.5	5.8	4.3	11.1	0.0	240.6
Other products .....	236.1	4.1	2.4	3.6	0.0	246.2
Residential Mortgages .....	2,005.8	82.1	32.6	41.6	25.0	2,187.0
<b>Total Retail &amp; SMEs</b> .....	<b>3,764.4</b>	<b>142.6</b>	<b>67.8</b>	<b>99.3</b>	<b>30.9</b>	<b>4,105.0</b>
<b>Gross loans less net fees plus interest receivables</b> .....	<b>6,980.9</b>	<b>279.0</b>	<b>81.4</b>	<b>145.1</b>	<b>45.1</b>	<b>7,531.5</b>

As of June 30, 2016	Risk Classification					Total
	Normal	Special Mention	Subnormal	Doubtful	Unrecoverable	
<b>Loan Portfolio</b>						
	<i>(Amounts in millions of US\$)</i>					
<b>Corporate &amp; Government</b>						
Comercial .....	635.1	3.8	1.0	5.6	0.0	645.5
Construction .....	851.8	167.3	0.1	21.1	0.0	1,040.3
Industrial .....	396.5	16.0	0.0	0.8	0.0	413.3
Offshore .....	477.5	0.0	0.0	0.0	0.0	477.5
Colon Free Zone .....	447.2	76.1	3.5	12.0	0.0	538.9
Government .....	173.2	0.0	0.0	0.0	0.0	173.2
<b>Total Corporate &amp; Government</b> .....	<b>2,981.3</b>	<b>263.2</b>	<b>4.7</b>	<b>39.4</b>	<b>0.0</b>	<b>3,288.6</b>

### Retail & SMEs

As of June 30, 2016	Risk Classification					
	Normal	Special Mention	Subnormal	Doubtful	Unrecoverable	Total
<b>Loan Portfolio</b>						
SME .....	378.5	11.8	2.5	15.2	2.0	410.1
Personal Loans .....	604.9	10.7	6.9	16.0	1.1	639.7
Financomer .....	101.3	4.3	2.4	4.1	0.1	112.2
Vehicles .....	162.9	8.8	3.2	2.5	0.2	177.5
Credit cards .....	194.6	4.2	3.1	6.8	0.2	208.9
Other products .....	226.2	2.5	0.2	3.8	0.0	232.6
Residential Mortgages .....	1,874.6	77.7	23.3	32.1	17.6	2,025.2
<b>Total Retail &amp; SMEs .....</b>	<b>3,543.0</b>	<b>120.0</b>	<b>41.6</b>	<b>80.4</b>	<b>21.1</b>	<b>3,806.1</b>
<b>Gross loans less net fees plus interest receivables .....</b>	<b>6,524.3</b>	<b>383.1</b>	<b>46.3</b>	<b>119.9</b>	<b>21.1</b>	<b>7,094.8</b>

Based on the assigned rating, the Superintendency of Banks requires that the Bank create certain allowances or charge off certain amounts. Below is a description of the loan portfolio classification criteria. In addition to complying with the Superintendency of Banks' methodology, we have developed an internal evaluation system to assess and classify our Corporate & Government loan portfolio according to the level of risk posed by our customers (see *Internal Risk Classifications* in this section).

#### Corporate Loans

##### A - Normal

The loan is current, or delinquency is not more than 30 days. Banks must also consider several factors to determine whether a loan that is current or delinquent no more than 30 days should nonetheless be classified as Special Mention. A loan is considered Normal when the operating cash flow of the borrower is sufficient to cover, or exceeds, the debt service until canceled. A loan is also considered Normal when: (i) the borrower shows a financial position with an acceptable level of indebtedness as compared to its net worth; (ii) the borrower periodically complies with its payment obligations, which is evidenced when the borrower cancels without resorting to new direct funding; (iii) the guarantees have been verified, clearly defined and periodically reviewed by qualified independent professionals; (iv) it has been shown that the borrower has a suitable management system, which will enable such borrower to permanently monitor its economic condition, and appropriate internal control systems; or (v) the borrower belongs to an industry that records favorable behavior during the normal course of business.

##### B - Special Mention

A loan must be classified as Special Mention when the borrower shows weaknesses that can potentially impair payment of the loan. In addition, special attention must be paid to the general state of the borrower's business and the collateral granted in order to prevent impairment of its ability to pay.

A loan is considered special mention risk when the loan is overdue by 31 to 90 days. In the case of loans secured by the collateral in the form of specified real estate property, if the total amount of the loan is less than 50% of the value of the collateral, the period during which the loan can be overdue is extended to 180 days. In addition to the delinquency period, a borrower's weakness can derive from: (i) situations that affect the borrower directly or indirectly, such as: (A) high indebtedness; (B) adverse situations that affect the industry in which the borrower operates; (C) inadequate loan agreement that does not adapt to the borrower's repayment possibilities; (D) deteriorating operating cash flow; or (E) expectations about future economic conditions could affect the collateral granted to us; (ii) delays in reporting the economic and financial situation of its business; or (iii) the discovery that the loan was granted pursuant to an incorrect credit analysis in which the financial characteristics of the borrower were not properly weighed in the analysis.

##### C - Subnormal

A loan will be classified as Subnormal when the operating cash flow, or other primary source of payment, is inadequate and jeopardizes the recovery of outstanding debts. If the loan deficiencies are not corrected promptly, we will evaluate the requirement of collateral.

We take into account the following circumstances in determining whether to classify a loan as subnormal credit: (i) the loan is overdue by 91 to 180 days (in the case of loans secured by the collateral in the form of specified real estate property, if the value of the loan is less than 50% of the value of the collateral, the period during which the loan can be overdue is extended to 270 days); (ii) the level of operating cash flow, or other primary source of payment, is insufficient to cover for the payment of the entire debt service under the conditions originally agreed; (iii) the borrower has overdue loans and/or judicial debt collection for loans with other banks, if known; (iv) the borrower shows clear evidence of a deterioration in working capital that does not allow it to meet payment on the originally agreed terms; or (v) the borrower exhibits problems in its credit relationships with suppliers and customers.

#### D - Doubtful

Doubtful recovery loans are those for which the borrower has a significantly deteriorated financial and economic situation. In general, a loan will be classified as a doubtful recovery loan when we have initiated a legal action because the sources of income of the borrower, or any collateral or equity, would only allow us to recover a portion of the loan.

We take into account the following circumstances in determining whether to classify a loan as doubtful recovery: (i) the loan is overdue for 181 to 270 days (in the case of loans secured by the collateral in the form of specified real estate property, if the value of the loan is less than 50% of the value of the collateral, the period during which the loan can be overdue is extended to 360 days); (ii) operating cash flow, or another primary source of payment, is insufficient to cover for the payment of debt service on the terms originally agreed; (iii) the existence of adverse conditions beyond the control of the borrower that may affect recovery of the loan, such as variations in the economic cycle of the country where the sources of loan repayment are generated, or specific unpredictable events such as fire, technology change, political change and others; or (iv) if the loan has been renewed more than once without payment of principal and interest, or if the loan has been diverted to other projects different from the original project for which the loan was acquired.

#### E - Unrecoverable

Unrecoverable loans are loans that are impossible to recover and are recognized as losses. There are no reasons to consider an unrecoverable loan as a financial asset, and the loss must be timely recognized, regardless of whether we could eventually partially or totally recover owed amounts. This category also includes loans granted to companies whose ability to generate income depends on other companies that are in a significantly deteriorated financial position to meet their commitments because of their own debt, operational problems, or the general circumstances of the industry in which it operates.

We take into account whether the borrower shows any of the following circumstances in determining whether to classify a loan as unrecoverable: (i) the loan is overdue by more than 270 days (in the case of loans secured by the collateral in the form of specified real estate property, in which value of the loan is less than 50% of the value of the collateral, the period during which the loan can be overdue is extended to 360 days); (ii) if the borrower has ceased its business and its loans are subject to judicial collection; (iii) if the information that we possess on the borrower is deficient, especially regarding its most recent financial position and current location; (iv) if the loan documentation is inadequate, deficient or false; or (v) if there is no collateral, or the collateral is inadequate or not properly constituted.

### *Consumer Loans*

#### A - Normal

A loan will be classified as Normal if it is current, or delinquent for no more than 60 days.

#### B - Special Mention

A loan will be classified as Special Mention if it is overdue by 61 to 90 days. In the case of loans secured by collateral in the form of specified real estate property, if the value of the loan is less than 50% of the value of the collateral, the period during which the loan can be overdue is extended to 180 days.

#### C - Subnormal

A loan will be classified as Subnormal if it is overdue by 91 to 120 days. In the case of loans secured by the collateral in the form of specified real estate property, if the value of the loan is less than 50% of the value of the collateral, the period will be extended up to 270 days.

#### D - Doubtful

A loan will be classified as Doubtful if it is overdue from 121 days to 180 days. In the case of loans secured by the collateral in the form of specified real estate property, if the value of the loan is less than 50% of the value of the collateral, the period during which the loan can be overdue is extended to 360 days.

#### E - Unrecoverable

A loan will be classified as Unrecoverable if there is no payment on the loan for more than 180 days. In the case of loans secured by the collateral of specified real estate property, if the value of the loan is less than 50% of the value of the collateral, the period during which the loan can be overdue is extended to 360 days.

### *Mortgage Loans*

#### A - Normal

A loan will be classified as Normal if it is current or overdue by less than 60 days.

#### B - Special Mention

A loan will be classified as Special Mention if it is overdue from more than 61 days to 90 days. In the case of loans secured by the collateral of specified real estate property, if the value of the loan is less than 70% of the value of the collateral, the period during which the loan can be overdue is extended to 180 days.

#### C - Subnormal

A loan will be classified as Subnormal if it is overdue by 91 days to 180 days. In the case of loans secured by the collateral of specified real estate property, if the value of the loan is less than 70% of the value of the collateral, the period during which the loan can be overdue is extended to 270 days.

#### D - Doubtful

A loan will be classified as Doubtful if it is overdue by 181 days to 360 days. In the case of loans secured by the collateral in the form of specified real estate property, if the value of the loan is less than 70% of the value of the collateral, the period during which the loan can be overdue is extended to 360 days.

## E - Unrecoverable

A loan will be classified as Unrecoverable if it is overdue by more than 360 days.

The composition and classification of our total loan portfolio as of June 30, 2017 and June 30, 2016 in accordance with the requirements of the Superintendent of Banks, is presented below:

Risk Category	June 30, 2017				June 30, 2016			
	Loan portfolio and finance lease operations	% Participation	Provision of loan portfolio and finance lease operations	% Participation	Loan portfolio and finance lease operations	% Participation	Provision of loan portfolio and finance lease operations	% Participation
A – Normal .....	6,980.9	92.7%	38.1	26.9%	6,524.3	92.0%	30.1	33.1%
B – Special Mention .....	279.0	3.7%	19.2	13.6%	383.2	5.4%	13.5	14.8%
C – Subnormal .....	81.4	1.1%	10.6	7.5%	46.3	0.7%	15.9	17.5%
D – Doubtful .....	145.1	1.9%	30.1	21.3%	119.9	1.7%	13.4	14.7%
E – Unrecoverable .....	45.1	0.6%	43.4	30.7%	21.1	0.3%	18.1	19.9%
<b>Total .....</b>	<b>7,531.5</b>	<b>100.0%</b>	<b>141.4</b>	<b>100.0%</b>	<b>7,094.8</b>	<b>100.0%</b>	<b>91.0</b>	<b>100.0%</b>

The composition and classification of our total loan portfolio as of December 31, 2016, December 31, 2015 and December 31, 2014, in accordance with the requirements of the Superintendent of Banks is presented below:

Risk Category	December 31, 2016				December 31, 2015				December 31, 2014			
	Loan portfolio and finance lease operations	% Participation	Provision of loan portfolio and finance lease operations	% Participation	Loan portfolio and finance lease operations	% Participation	Provision of loan portfolio and finance lease operations	% Participation	Loan portfolio and finance lease operations	% Participation	Provision of loan portfolio and finance lease operations	% Participation
A – Normal .....	6,639.3	91.4%	30.6	25.0%	6,520.9	95.6%	27.0	40.7%	6,047.0	96.4%	22.2	35.6%
B – Special Mention .....	405.1	5.6%	28.6	23.2%	130.0	1.9%	8.1	12.2%	74.7	1.2%	18.4	29.5%
C – Subnormal .....	66.6	0.9%	8.2	6.8%	46.7	0.7%	4.9	7.4%	45.9	0.7%	4.3	6.9%
D – Doubtful .....	126.0	1.7%	20.9	17.1%	67.3	1.0%	23.1	34.90%	73.4	1.2%	12.2	19.6%
E – Unrecoverable .....	28.9	0.4%	34.1	27.9%	55.7	0.8%	3.2	4.8%	30.3	0.5%	5.3	8.4%
<b>Total .....</b>	<b>7,265.9</b>	<b>100.0%</b>	<b>122.1</b>	<b>100.0%</b>	<b>6,820.6</b>	<b>100.0%</b>	<b>66.3</b>	<b>100.0%</b>	<b>6,271.3</b>	<b>100.0%</b>	<b>62.5</b>	<b>100.0%</b>

Our loan classification has remained relatively stable across the different categories, with the exception of a significant increase in the Special Mention risk category as of June 30, 2016 and December 31, 2016. The increase in the Special Mention risk category to 5.6% for the year ended December 31, 2016 was due to an economic group to which our most significant exposure were construction-related loans. The operations of the related construction project were suspended for regulatory reasons starting in 2016, the construction project was recently sold and the related construction loans were repaid in full. The unpaid portion of certain other loans to the economic group is fully provisioned and is expected to be written off in the second semester of 2017. As a result, the Special Mention risk category decreased to 3.7% as of June 30, 2017.

The table below sets forth the composition of our Corporate & Government banking customers as of June 30, 2017:

Risk Category	June 30, 2017			
	Loan portfolio and finance lease operations	% Participation	Provision of loan portfolio and finance lease operations	% Participation
A – Normal .....	3,216.5	93.9%	13.2	19.3%
B – Special Mention .....	136.4	4.0%	11.3	16.6%
C – Subnormal .....	13.6	0.4%	1.9	2.8%
D – Doubtful .....	45.8	1.3%	4.3	6.3%
E – Unrecoverable .....	14.1	0.4%	37.6	55.0%
<b>Total .....</b>	<b>3,426.5</b>	<b>100.0%</b>	<b>68.4</b>	<b>100.0%</b>

The table below sets forth the composition of our Corporate & Government banking customers as of December 31, 2016:

<b>Risk Category</b>	<b>December 31, 2016</b>			
	<b>Loan portfolio and finance lease</b>	<b>% Participation</b>	<b>Provision of loan portfolio and finance lease</b>	<b>% Participation</b>
A – Normal .....	2,852.4	89.2%	11.4	17.5%
B – Special Mention .....	291.9	9.1%	23.1	35.5%
C – Subnormal .....	8.5	0.3%	1.8	2.8%
D – Doubtful .....	45.8	1.4%	4.3	6.6%
E – Unrecoverable .....	0.3	0.0%	24.4	37.6%
<b>Total .....</b>	<b>3,198.9</b>	<b>100.0%</b>	<b>65.0</b>	<b>100.0%</b>

The Superintendency of Banks establishes provision percentages according to risk ratings, but allows entities to have internal models to determine the amount of provisions. The Superintendency of Banks states that the provisions may not be below the standards set forth in the table below.

<b>Table of weights for the calculation of specific provisions</b>		<b>Table of minimum weights for the calculation of internal specific provisions</b>	
	<b>Weights</b>		<b>Weights</b>
Special Mention .....	20%	Special Mention .....	2%
Subnormal .....	50%	Subnormal .....	15%
Doubtful .....	80%	Doubtful .....	50%
Unrecoverable .....	100%	Unrecoverable .....	100%

### ***Internal Risk Classifications***

In addition to the Superintendency of Banks' classifications discussed above, we also apply internal methodologies, approved by our Risk Management Committee, in order to assess and classify our Corporate & Government loan portfolio according to the level of risk posed by our customers. Our rating model includes 10 risk categories that are matched to the previously described five risk categories established by the Superintendency of Banks. We initially determine the risk profile of the customer based on our internal methodologies and use the Superintendency of Banks' classifications to calculate loss allowances and reporting needs.

Our internal classification of the Corporate & Government loan portfolio uses a rating model that is based on the analysis of the interrelation of both quantitative and qualitative criteria that may affect compliance by the customer with agreed terms and conditions. This analysis is performed at the time the loan is issued, is updated annually and includes criteria to determine credit risk according to the financial performance of a customer and its ability to repay the loan, taking into account factors that are not expressly stated in the financial statements.

### ***Loan Portfolio Risk Classification***

As of June 30, 2017, our allowance for loan-losses was US\$141.4 million and as of December 31, 2016, our allowance for loan-losses was US\$122.1 million. The following table shows our gross loans less net fees plus interest receivable as of June 30, 2017 and 2016 and as of December 31, 2016, 2015 and 2014 for each risk category and the portions of the mandatory allowance for loan-losses attributable to such loans (with normal risk being the highest quality of rating and unrecoverable the lowest). Mandatory allowances for loan-losses are allocated on a monthly basis after the classification of the loan portfolio.

The composition and classification of our total loan portfolio as of June 30, 2017 and June 30, 2016 in accordance with the requirements of the Superintendency of Banks is presented below:

Risk Category	June 30, 2017				June 30, 2016			
	Loan portfolio and finance lease operations	% Participation	Provision of loan portfolio and finance lease operations	% Participation	Loan portfolio and finance lease operations	% Participation	Provision of loan portfolio and finance lease operations	% Participation
A – Normal .....	6,980.9	92.7%	38.1	26.9%	6,524.3	92.0%	30.1	33.1%
B – Special Mention.....	279.0	3.7%	19.2	13.6%	383.2	5.4%	13.5	14.8%
C – Subnormal .....	81.4	1.1%	10.6	7.5%	46.3	0.7%	15.9	17.5%
D – Doubtful .....	145.1	1.9%	30.1	21.3%	119.9	1.7%	13.4	14.7%
E – Unrecoverable.....	45.1	0.6%	43.4	30.7%	21.1	0.3%	18.1	19.9%
<b>Total .....</b>	<b>7,531.5</b>	<b>100.0%</b>	<b>141.4</b>	<b>100.0%</b>	<b>7,094.8</b>	<b>100.0%</b>	<b>91.0</b>	<b>100.0%</b>

The composition and classification of our total loan portfolio as of December 31, 2016, December 31, 2015 and December 31, 2014, in accordance with the requirements of the Superintendency of Banks is presented below:

Risk Category	December 31, 2016				December 31, 2015				December 31, 2014			
	Loan portfolio and finance lease operations	% Participation	Provision of loan portfolio and finance lease operations	% Participation	Loan portfolio and finance lease operations	% Participation	Provision of loan portfolio and finance lease operations	% Participation	Loan portfolio and finance lease operations	% Participation	Provision of loan portfolio and finance lease operations	% Participation
A – Normal .....	6,639.3	91.4%	30.6	25.0%	6,520.9	95.6%	27.0	40.7%	6,047.0	96.4%	22.2	35.6%
B – Special Mention .....	405.1	5.6%	28.6	23.2%	130.0	1.9%	8.1	12.2%	74.7	1.2%	18.4	29.5%
C – Subnormal .....	66.6	0.9%	8.2	6.8%	46.7	0.7%	4.9	7.4%	45.9	0.7%	4.3	6.9%
D – Doubtful .....	126.0	1.7%	20.9	17.1%	67.3	1.0%	23.1	34.90%	73.4	1.2%	12.2	19.6%
E – Unrecoverable .....	28.9	0.4%	34.1	27.9%	55.7	0.8%	3.2	4.8%	30.3	0.5%	5.3	8.4%
<b>Total.....</b>	<b>7,265.9</b>	<b>100.0%</b>	<b>122.1</b>	<b>100.0%</b>	<b>6,820.6</b>	<b>100.0%</b>	<b>66.3</b>	<b>100.0%</b>	<b>6,271.3</b>	<b>100.0%</b>	<b>62.5</b>	<b>100.0%</b>

As of June 30, 2017 and December 31, 2016, 92.7% and 91.4% of our gross loan portfolio, respectively, was classified as normal risk. Our policy is to maintain strong asset quality in our loan portfolio by implementing what we believe are strict credit approval policies and by systematic credit monitoring.

Our Board of Directors delegates credit approvals to different authorized persons or credit committees. With regard to Corporate & Government banking loans, the aggregate amount that can be authorized for a single company or economic group at each level of delegation depends on the credit exposure limits evaluated by the Bank. Levels of delegation range from commercial area managers to the Bancolombia Corporate Credit Committee, the highest approval committee for Corporate & Government banking. For Retail & SMEs loans, the levels of delegation are principally determined within the Consumer Banking Credit Management and depend on the type of product.

In addition, we constantly monitor our commercial and individual customers' financial condition by updating their financial information on a bi-annual basis, and sometimes on a quarterly basis.

#### ***Allowance for Loan-losses***

Our process for creating allowances for loan-losses is carried out on a monthly basis and in accordance with IAS 39 (Financial Instruments Recognition and Measurement) provisioning guidelines. These processes allow us to determine the allowance we need to make in accordance with the risk level in each of our loan portfolios. In addition, pursuant to IFRS 9 (Financial Instruments), which will apply as of January 1, 2018, we will need to develop a new expected loss model to satisfy the expected loan requirements.

We assess our loan portfolio and establish the Specific Reserve based on IAS 39. Provisions for loan-losses are accounted for as charges on income and added to allowance for loan-losses to bring the allowance to the required level. Any subsequent charge-off (write-off) of any loan is charged against this allowance. A Specific Reserve provision is made against an individual loan when, in the judgment of our management, the estimated payment receivable from the obligor, including the value of any available collateral, is estimated to be lower than the amount of principal and interest outstanding on the obligor's loan. The amount of the provision made in our financial statements covers the difference between the balance outstanding on impaired loans and the estimated recovery.

In addition, we are required by the Superintendent of Banks to maintain a Dynamic Reserve. The Dynamic Reserve is a statutory reserve intended to cover future unexpected losses on the loan portfolio classified as Normal. As of June 30, 2017 we maintained a Dynamic Reserve of US\$95.1 million, which was 1.5 % of Risk-Weighted Assets with a Normal classification awarded by the Superintendent of Banks.

Our allowance for loan-losses complies with the requirements of the Superintendent of Banks. In accordance with Superintendent of Banks' guidelines, the allowance for loan-losses requires the percentages of the net balances of the loans to be adjusted as follows: for Normal, 0%; for Special Mention, 20%; for Subnormal, 50%; for Doubtful, 80%; and for Unrecoverable, 100%. As of June 30, 2017, our allowance for loan-losses amounted to 1.9% of total loans outstanding.

The following table sets forth the opening balance of our allowance for loan-losses, net cost, write-offs and end-of-period balance of our allowance for loan-losses as of June 30, 2017 and June 30, 2016:

	As of June 30,		Percentage Change
	2017	2016	2017/2016
	<i>(Amounts in US\$ millions)</i>		
Opening balance .....	122.1	66.3	84.1%
Net cost <sup>(1)</sup> .....	58.0	47.3	22.5%
Write-offs .....	(38.7)	(22.7)	70.6%
<b>End-of-period balance .....</b>	<b>141.4</b>	<b>91.0</b>	<b>55.4%</b>

<sup>(1)</sup> Loan-loss reserves created net of loan-loss reserves released for the period.

The following table sets forth the opening balance of our allowance for loan-losses, net cost, write-offs and end-of-period balance of our allowance for loan-losses for the years ended December 31, 2016, 2015 and 2014:

	As of December 31,			Percentage Change	Percentage Change
	2016	2015	2014	2016/2015	2015/2014
	<i>(Amounts in US\$ millions)</i>				
Opening balance .....	66.3	62.5	59.2	6.1%	5.6%
Net cost <sup>(1)</sup> .....	115.9	51.5	49.5	125.1%	4.0%
Write-offs .....	(60.1)	(47.7)	(46.2)	26.0%	3.2%
<b>End-of-period balance .....</b>	<b>122.1</b>	<b>66.3</b>	<b>62.5</b>	<b>84.2%</b>	<b>6.1%</b>

<sup>(1)</sup> Loan-loss reserves created net of loan-loss reserves released for the period.

#### *Developments in Reserves and Write-offs*

Portfolio write-offs are made based on the determination of non-payment of the obligations and accounts receivable by a client or a third party.

When delinquency conditions are present, we initially assess whether the guarantees that support the portfolio generate a reasonable expectation of recovery. If that is the case, the necessary process is carried out for the recovery of the guarantee prior to the write-off. In cases where the net realizable value of the guarantee indicates that there are no reasonable expectations of recovery, the credits are written off. In most mortgage loan cases, there is still a high probability of recovery after default.

Our write-offs have increased to US\$38.7 million as of June 30, 2017 from US\$22.7 million as of June 30, 2016, primarily due to an increase in penalties in credit card loans and personal loans, whereas our write-offs have increased to US\$60.1 million as of December 31, 2016 from US\$47.7 million as of December 31, 2015 and US\$46.2 million as of December 31, 2014, primarily due to credit card loans.

Our write-offs represented 0.5% as of June 30, 2017 and 0.8% as of December 31, 2016 with respect to total gross loans.

### Allowances by Type of Loan

The following table sets forth the composition of the allowance for loan-losses by type of loan as of June 30, 2017 and June 30, 2016:

	Banistmo S.A. and Subsidiaries					
	As of June 30, 2017			As of June 30, 2016		
	Allocated allowance	Allocated allowance as a % of gross loans	Loan category as a % of gross loans	Allocated allowance	Allocated allowance as a % of gross loans	Loan category as a % of gross loans
	<i>(Amounts in US\$ millions)</i>					
<b>Corporate &amp; Government Retail &amp; SMEs</b>	69.5	2.0%	45.5%	42.5	1.3%	46.4%
Consumer.....	58.8	3.1%	25.5%	44.1	2.5%	25.1%
Residential mortgage .....	13.1	0.6%	29.0%	4.4	0.2%	28.5%
<b>Total.....</b>	<b>141.4</b>	<b>1.9%</b>	<b>100.0%</b>	<b>91.0</b>	<b>1.3%</b>	<b>100.0%</b>

The following table sets forth the composition of the allowance for loan-losses by type of loan as of December 31, 2016, 2015 and 2014:

	Banistmo S.A. and Subsidiaries								
	As of December 31, 2016			As of December 31, 2015			As of December 31, 2014		
	Allocated allowance	Allocated allowance as a % of gross loans	Loan category as a % of gross loans	Allocated allowance	Allocated allowance as a % of gross loans	Loan category as a % of gross loans	Allocated allowance	Allocated allowance as a % of gross loans	Loan category as a % of gross loans
	<i>(Amounts in US\$ millions)</i>								
<b>Corporate &amp; Government Retail &amp; SMEs</b>	65.8	2.1%	44.0%	29.1	0.9%	48.2%	27.3	0.9%	50.6%
Consumer.....	50.1	2.6%	26.5%	34.0	2.0%	24.4%	31.7	2.2%	23.3%
Residential mortgage .....	6.2	0.3%	29.5%	3.1	0.2%	27.4%	3.5	0.2%	26.1%
<b>Total.....</b>	<b>122.1</b>	<b>1.7%</b>	<b>100.0%</b>	<b>66.3</b>	<b>1.0%</b>	<b>100.0%</b>	<b>62.5</b>	<b>1.0%</b>	<b>100.0%</b>

Our coverage ratio was 72.0%, 79.2%, 53.9% and 60.3% as of June 30, 2017, December 31, 2016, December 31, 2015 and December 31, 2014, respectively.

The table below shows information related to our loan portfolio as of the dates indicated:

	Banistmo S.A. and Subsidiaries As of June 30,		Banistmo S.A. and Subsidiaries As of December 31,		
	2017	2016	2016	2015	2014
	<i>(Amounts in US\$ millions)</i>				
Gross loans less net fees plus interest receivables .....	7,531.5	7,094.8	7,265.9	6,820.6	6,271.3
Allowance for loan-losses.....	141.4	91.0	122.1	66.3	62.5
NPLs.....	196.4	155.1	154.2	123.0	103.7
NPL Ratio.....	2.6%	2.2%	2.1%	1.8%	1.7%
Coverage Ratio .....	72.0%	58.7%	79.2%	53.9%	60.3%
Coverage Ratio plus Dynamic Reserve.....	120.4%	118.5%	139.4%	125.9%	131.4%
Write-offs.....	38.7	22.7	60.1	47.7	46.2
Recoveries of write-offs.....	8.2	6.7	14.0	11.5	10.6

As of June 30, 2017, our Coverage Ratio by type of loan was 75.5% for corporate loans, 155.2% for consumer loans and 19.7% for residential mortgages, whereas as of December 31, 2016, our Coverage Ratio by type of loan was 145.9% for corporate loans, 89.4% for consumer loans and 11.7% for residential mortgages.

### ***Our 20 Largest Borrowers by Outstanding Balances***

The following table sets forth the economic sector and outstanding balance of our 20 largest borrowers as of June 30, 2017.

	<b>Economic sector of the Borrower</b>	<b>Outstanding Balance</b>	<b>% of Corporate &amp; Government Loan Portfolio</b>	<b>Country of origin of the Borrower</b>
		<i>(in US\$ millions)</i>		
1	Offshore.....	148.2	4.3%	Guatemala
2	Construction .....	104.7	3.1%	Panama
3	Construction .....	99.2	2.9%	Panama
4	Construction .....	99.2	2.9%	Panama
5	Construction .....	91.0	2.7%	Panama
6	Construction .....	80.3	2.3%	Panama
7	Industrial.....	66.3	1.9%	Panama
8	Industrial.....	60.3	1.8%	Panama
9	Industrial.....	57.6	1.7%	Panama
10	Industrial.....	55.7	1.6%	Panama
11	Construction .....	51.6	1.5%	Panama
12	Commercial .....	48.3	1.4%	Panama
13	Offshore.....	46.8	1.4%	Costa Rica
14	Government and Non-Banking Finance .....	43.7	1.3%	Panama
15	Offshore.....	39.5	1.2%	Costa Rica
16	Commercial .....	39.4	1.1%	Panama
17	Colon Free Zone .....	38.1	1.1%	Panama
18	Construction .....	35.0	1.0%	Panama
19	Commercial .....	33.7	1.0%	Panama
20	Commercial .....	32.7	1.0%	Panama
	<b>Total.....</b>	<b>1,271.2</b>	<b>37.1%</b>	

Even though the borrowers identified in the third and fourth place are identified separately because they are different entities, they belong to the same economic group and the exposures relate to the same construction project. Consequently, if those two borrowers were to be considered on a consolidated basis, the outstanding balance and their participation in the total loan portfolio would be higher, ranking them in first place.

For information on regulation related to concentration of loan portfolio, see “*Related Party Transactions—Concentration in One Person.*”

## THE PANAMANIAN BANKING SYSTEM

The Panamanian banking system is highly competitive. As of December 31, 2016, there were 91 banks located in Panama that are part of what is known as the International Banking Center. Within the International Banking Center, there are two segments, which are known as the National Banking System and the International Banking System. The National Banking System is formed by those banks that, like us, possess a general banking license, whereas the International Banking System is formed by banks that possess international licenses and representation offices.

The National Banking System, had a total of 48 financial institutions as of December 31, 2016, out of which 29, including Banistmo, were privately held international banks, 17 were privately held local banks and two were state-owned banks (Banco Nacional de Panamá and Caja de Ahorros). The International Banking System had a total of 43 banks.

Total assets in the National Banking System were US\$101,152.4 million as of December 31, 2016, US\$97,273.4 million as of December 31, 2015 and US\$89,983.6 million as of December 31, 2014. Total liabilities in the National Banking System were US\$90,475.8 million as of December 31, 2016, US\$87,412.6 million as of December 31, 2015 and US\$81,121.9 million as of December 31, 2014. Total equity increased US\$815.8 million to US\$10,676.6 million as of December 31, 2016 from US\$9,860.8 million as of December 31, 2015. Total equity in the National Banking System was US\$9,073.7 million as of December 31, 2014. The National Banking System has demonstrated strong financial results, with a net profit of US\$1,240.3 million as of December 31, 2016, from US\$1,335.8 million as of December 31, 2015 and US\$1,266.9 million as of December 31, 2014.

The National Banking System maintained average NPL Ratios of 1.3% in 2016, 1.0% in 2015 and 0.9% in 2014, and average Coverage Ratio levels of 80.6% in 2016, 80.8% in 2015 and 90.9% in 2014. The sector has also sustained profitability levels reflected in return on average equity of 12.1% in 2016, 14.1% in 2015 and 14.9% in 2014, and return on average assets of 1.3% in 2016, 1.4% in 2015 and 1.5% in 2014. Furthermore, the National Banking System had an average Regulatory Capital to Risk-Weighted Assets Ratio of 14.2% in 2016, 14.2% in 2015 and 13.6% in 2014. The National Banking System experienced a growth rate in terms of gross loans and deposits of 5.0% and 3.3%, respectively, from December 31, 2015 to December 31, 2016, and, 11.1% and 5.9%, respectively, from December 31, 2014 to December 31, 2015.

Information with respect to Banistmo that is obtained from the Superintendency of Banks is provided on a stand-alone basis and may differ from the information derived from our financial statements. The excluded subsidiaries of Banistmo do not engage in banking operations and represent 3.7% of our consolidated total assets as of June 30, 2017 and, therefore, presenting such selected statistical information on a consolidated basis would not result in material differences in such selected statistical information.

The following chart presents certain statistics of the National Banking System as of the dates indicated.

	<b>National Banking System</b>			<b>% Change December 31, 2014-2016</b>
	<b>For the year ended December 31,</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>	
	<i>(Amounts in US\$ millions)</i>			
<b>Total Assets</b> .....	<b>101,152</b>	<b>97,273</b>	<b>89,984</b>	<b>12.4%</b>
<b>Total Loans</b> .....	<b>64,525</b>	<b>61,605</b>	<b>55,454</b>	<b>16.4%</b>
Local .....	48,053	44,696	39,943	<b>20.3%</b>
Foreign .....	16,472	16,909	15,510	<b>6.2%</b>
<b>Total Deposits</b> .....	<b>73,919</b>	<b>71,324</b>	<b>66,846</b>	<b>10.6%</b>
Local .....	50,670	48,918	45,928	<b>10.3%</b>
Foreign .....	23,249	22,406	20,918	<b>11.1%</b>
<b>Total Equity</b> .....	<b>10,677</b>	<b>9,861</b>	<b>9,058</b>	<b>17.9%</b>
<b>NPL Ratio</b> .....	<b>1.3%</b>	<b>1.0%</b>	<b>0.9%</b>	
<b>Regulatory Capital to Risk-Weighted Assets Ratio</b> .....	<b>14.2%</b>	<b>14.2%</b>	<b>13.6%</b>	

The following table shows certain financial indicators of our growth compared to our key competitors for the years indicated on a stand-alone basis:

	Banistmo S.A.			Banco General			Global Bank			Banesco			BAC (Regional consolidated)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Return on average total assets <sup>(1)</sup> .....	0.4%	1.3%	0.8%	1.9%	1.9%	1.9%	0.8%	1.0%	1.3%	1.0%	1.1%	1.3%	5.0%	5.0%	6.1%
Return on average stockholders' equity <sup>(2)</sup> .....	3.9%	13.1%	7.7%	25.9%	24.2%	22.8%	11.1%	13.5%	16.4%	12.8%	14.6%	15.7%	15.0%	15.5%	18.6%
Efficiency ratio <sup>(3)</sup> .....	64.7%	61.8%	65.4%	47.9%	50.6%	50.0%	80.4%	66.7%	65.5%	64.6%	64.4%	61.7%	29.5%	30.9%	24.4%
NPL Ratio <sup>(4)</sup> .....	1.7%	0.9%	1.0%	1.2%	0.9%	0.9%	0.8%	0.9%	0.8%	1.2%	1.1%	1.0%	1.0%	0.9%	1.2%
Coverage Ratio <sup>(4)</sup> .....	71.5%	38.2%	32.9%	119.0%	128.8%	137.3%	59.6%	92.7%	108.6%	99.9%	99.3%	103.0%	112.7%	107.7%	133.1%
Total assets .....	9,244.5	8,998.3	8,407.5	14,891.6	13,686.9	12,345.5	6,536.4	5,788.7	5,009.0	4,054.5	3,996.2	3,659.5	7,336.6	6,558.8	6,358.8
Gross loans .....	7,075.3	6,680.0	6,186.2	9,881.7	8,916.5	7,954.7	5,454.0	4,876.2	4,226.5	2,691.5	2,670.7	2,238.4	3,547.0	3,239.6	3,119.6
Total deposits .....	6,240.1	6,113.0	6,127.7	10,659.4	9,912.6	9,207.1	2,966.3	2,865.9	2,841.1	3,369.0	3,463.6	3,207.8	3,095.2	2,985.5	2,864.4
Net loans to deposits .....	113.4%	109.3%	101.0%	92.7%	90.0%	86.4%	183.9%	170.1%	148.8%	79.9%	77.1%	69.8%	114.6%	108.5%	108.9%
Regulatory Capital to Risk-Weighted Assets Ratio .....	14.4%	14.2%	13.6%	18.6%	17.2%	17.7%	13.4%	13.3%	13.4%	12.4%	12.1%	12.0%	13.1%	13.5%	12.6%
Total general and administrative expenses/average total assets .....	2.5%	2.4%	2.5%	2.2%	2.2%	2.3%	3.5%	3.5%	3.3%	1.9%	1.6%	1.7%	1.9%	2.1%	1.8%

(1) Net profit for the period divided by average total assets for the same period.

(2) Net profit for the period divided by average total stockholders' equity for the same period.

(3) Total general and administrative expenses for the period divided by the sum of Total interest and commission income minus Total interest expense plus Total income from banking and other services, net for the same period.

(4) NPL as reported by Superintendency of Banks, and provisions exclude Dynamic Reserve.

Source: Superintendency of Banks

## National Banking System Market Share Information

Pursuant to information provided by the Superintendency of Banks, the top five competitors within the National Banking System represent approximately 50% of the National Banking System. Because of the market structure, none of the banks has a dominant position. Banco General and Banistmo are the two largest privately-owned banks in the National Banking System. Combined, they accounted for 23.8% of total assets of the financial system as of December 31, 2016. Their combined market shares for loans and deposits were 25.9% and 32.6%, respectively, as of December 31, 2016.

Local loans and local deposits have grown at compounded average growth rates of 9.5% and 6.0%, respectively, from 2013 to 2016. Local loans and local deposits grew 7.7% and 4.8% in 2016, 11.9% and 5.3% in 2015 and 8.9% and 8.0% in 2014. Loans to the construction, industrial, consumer and residential mortgage segments experienced growth of 18.0%, 17.0%, 13.2% and 12.2%, respectively, during 2016. Local loans and local deposits have grown at compounded annual growth rates from 9.8% and 5.5%, respectively, from December 31, 2014 to December 31, 2016. The following table sets forth the market share for the main competitors in the National Banking System for the year ended on December 31, 2016:

	Assets	Equity	Loans	Deposits	Profits
<b>Banistmo</b> .....	<b>9.1%</b>	<b>9.2%</b>	<b>10.8%</b>	<b>12.0%</b>	<b>3.0%</b>
Banco General .....	14.7%	10.4%	15.1%	20.6%	22.1%
Global Bank .....	6.5%	4.7%	8.4%	5.7%	4.1%
Banesco .....	4.0%	3.2%	4.1%	6.5%	3.3%
BAC .....	7.3%	22.2%	5.4%	6.0%	27.8%
Others .....	58.4%	50.3%	56.1%	49.2%	39.6%

Source: Superintendency of Banks.

### Client Deposits

The following tables set forth the market share of Banistmo and its main competitors, based on figures published by the Superintendency of Banks, for the years ended December 31, 2016, 2015 and 2014, in respect of savings accounts, checking accounts and time deposits:

<b>Saving Accounts – Market Share (%)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Banistmo</b> .....	<b>13.0%</b>	<b>13.8%</b>	<b>13.5%</b>
Banco General .....	25.8%	24.4%	23.4%
Global Bank .....	5.4%	5.4%	5.4%
Banesco .....	13.1%	14.5%	15.3%
BAC .....	3.1%	3.1%	3.2%
Others .....	39.5%	38.7%	39.1%

Source: Superintendency of Banks.

<b>Checking Accounts – Market Share (%)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Banistmo</b> .....	<b>12.2%</b>	<b>13.0%</b>	<b>13.4%</b>
Banco General .....	24.6%	22.8%	22.2%
Global Bank .....	3.8%	3.9%	4.1%
Banesco .....	4.7%	4.6%	3.9%
BAC .....	9.0%	8.9%	8.1%
Others .....	45.7%	46.9%	48.3%

Source: Superintendency of Banks.

<b>Time Deposits – Market Share (%)</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Banistmo</b> .....	<b>11.6%</b>	<b>11.1%</b>	<b>10.7%</b>
Banco General .....	16.8%	16.5%	16.4%
Global Bank .....	6.6%	6.6%	7.0%
Banesco .....	4.4%	4.4%	4.0%
BAC .....	6.0%	6.1%	6.5%
Others .....	54.6%	55.4%	55.3%

Source: Superintendency of Banks.

## Liabilities

The table below sets forth our market share and ranking with respect to total liabilities as of the dates indicated.

	As of December 31, 2016			As of December 31, 2015			As of December 31, 2014		
	Balance	Market Share	Ranking	Balance	Market Share	Ranking	Balance	Market Share	Ranking
	(US\$ millions)	(%)		(US\$ millions)	(%)		(US\$ millions)	(%)	
Banco General .....	10,659.4	20.6%	1	9,912.6	19.8%	1	7,855.2	14.2%	1
<b>Banistmo</b> .....	<b>6,240.1</b>	<b>12.0%</b>	<b>2</b>	<b>6,113.0</b>	<b>12.2%</b>	<b>2</b>	<b>6,127.7</b>	<b>11.1%</b>	<b>2</b>
Banesco .....	3,369.0	6.5%	3	3,463.6	6.9%	3	2,215.5	4.0%	5
BAC .....	3,095.2	6.0%	4	2,985.5	6.0%	4	3,082.2	5.6%	4
Global Bank .....	2,966.3	5.7%	5	2,865.9	5.7%	5	4,189.4	7.6%	3
Multibank .....	2,353.8	4.5%	6	2,170.3	4.3%	6	2,162.6	3.9%	7
Caja de Ahorros .....	1,775.4	3.4%	7	1,474.9	2.9%	7	1,393.3	2.5%	9
Bank of China .....	1,634.9	3.2%	8	1,688.3	3.4%	8	1,413.3	2.6%	8
Aliado .....	1,409.3	2.7%	9	1,324.4	2.6%	9	1,358.9	2.5%	10
Scotiabank .....	1,225.2	2.4%	10	1,190.2	2.4%	10	2,200.0	4.0%	6
<b>Total</b> .....	<b>51,850.4</b>			<b>50,201.4</b>			<b>55,452.7</b>		

<sup>(1)</sup> Presented on a stand-alone basis.  
Source: Superintendency of Banks

## Assets

The following table sets forth our market share and ranking with respect to total assets as of the dates indicated.

	As of December 31, 2016 <sup>(1)</sup>		
	Balance	Market Share	Ranking
	(US\$ millions)	(%)	
Banco General .....	14,891.6	14.7%	1
Banco Nacional (state-owned) .....	10,435.9	10.3%	2
<b>Banistmo</b> .....	<b>9,244.5</b>	<b>9.1%</b>	<b>3</b>
BLADDEX .....	7,336.6	7.3%	4
BAC .....	7,246.0	7.2%	5
Global Bank .....	6,536.4	6.5%	6
Bank of China .....	5,161.8	5.1%	7
Multibank .....	4,278.3	4.2%	8
Banesco .....	4,054.5	4.0%	9
Caja de Ahorros (state-owned) .....	3,386.1	3.3%	10
<b>TOTAL BANKING SYSTEM</b> .....	<b>101,152.4</b>		

<sup>(1)</sup> Presented on a stand-alone basis.  
Source: Superintendency of Banks

	As of December 31, 2015 <sup>(1)</sup>		
	Balance	Market Share	Ranking
	(US\$ millions)	(%)	
Banco General .....	13,686.9	14.1%	1
<b>Banistmo</b> .....	<b>8,998.3</b>	<b>9.3%</b>	<b>2</b>
BAC (consolidated regional operation) .....	6,558.8	6.7%	3
Bank of China .....	6,289.4	6.5%	4

	As of December 31, 2015 <sup>(1)</sup>		
	Balance	Market Share	Ranking
Global Bank .....	5,788.7	6.0%	5
BanESCO .....	3,996.2	4.1%	6
Multibank .....	3,905.2	4.0%	7
Scotiabank .....	2,828.8	2.9%	8
Aliado .....	2,290.8	2.4%	9
BICSA .....	1,849.3	1.9%	10
<b>TOTAL BANKING SYSTEM .....</b>	<b>97,273.4</b>		

<sup>(1)</sup> Presented on a stand-alone basis.

Source: Superintendency of Banks

	As of December 31, 2014 <sup>(1)</sup>		
	Balance	Market Share	Ranking
	(US\$ millions)	(%)	
Banco General .....	12,345.5	13.7%	1
<b>Banistmo .....</b>	<b>8,407.5</b>	<b>9.3%</b>	<b>2</b>
BAC (consolidated regional operation) .....	6,358.8	7.0%	3
Global Bank .....	5,009.0	5.6%	4
Multibank .....	3,501.8	3.9%	5
BICSA .....	1,837.3	2.0%	6
Aliado .....	2,166.8	2.4%	7
Citibank sucursal Panama .....	1,365.9	1.5%	8
Scotiabank .....	2,741.2	3.0%	9
Credicorp .....	1,615.0	1.8%	10
<b>TOTAL BANKING SYSTEM .....</b>	<b>89,983.6</b>		

<sup>(1)</sup> Presented on a stand-alone basis.

Source: Superintendency of Banks

## BUSINESS

### The Bank

We are a full-service commercial bank that offers a wide range of financial services and products, serving over 575,000 customers through our two core business lines: Retail & SMEs and Corporate & Government banking. We are an organization inspired by our Panamanian identity and seek to contribute to the development of the communities in which we are present. Since October 2013, we have been part of Grupo Bancolombia as a wholly-owned subsidiary of Bancolombia. As of June 30, 2017 we represented 13.9% of Grupo Bancolombia in terms of assets and 8.7% in terms of total interest income, and we were the biggest non-Colombian franchise of the group. Our affiliation with Grupo Bancolombia generates a number of synergistic benefits and savings in areas like technology, security, anti-money laundering compliance, new procurement development, management expertise and best practices and credit scoring, among others.

Following its expansion across Central America beginning in 2007, Grupo Bancolombia has a presence in 9 countries in the region, including Colombia (Bancolombia), El Salvador (Banco Agrícola), Guatemala (BAM) and Panama (Banistmo and Bancolombia Panamá).

We distribute our products and services through one of the broadest networks in the country. Our network has grown from 359 service points in December 2014 to 510 service points in June 2017, principally due to the expansion of our ATMs and non-banking agents (third parties that are connected to us through real-time data transmission systems and that offer our services to prospective and current customers). As of June 30, 2017, our network had 327 ATMs, 132 non-banking agents and 51 branch offices. Additionally, our network consists of a corporate headquarters, a representative office in Guatemala, a promotion and marketing scheme in Colombia, our virtual branches, a mobile application, call center services, a digital messaging platform and our digital marketing through social media, which includes Twitter, Facebook and Instagram.

We also offer a loyalty program, “Regalate,” as a way of attracting and retaining customers. The Regalate program encourages customers to purchase goods and services by awarding points that are redeemable from affiliated merchants. As of March 31, 2017, 60,000 customers were enrolled in our loyalty program.

As of December 31, 2016, we were Panama’s second-largest privately-owned financial institution, holding 10.8% of total outstanding loans and 12.0% of total customers’ deposits, 9.1% of total assets, 3.0% of net profit and we had 12.9% market share of corporate loans, 14.4% market share of consumer loans and 16.7% market share of residential mortgage loans. We have a widely recognized brand and use various partnerships and sponsorships to further increase our visibility, such as our sponsorship of the Panamanian National Soccer Team.

As of December 31, 2016, 2015 and 2014, respectively, our total assets amounted to US\$9,174.1 million, US\$8,920.9 million and US\$8,312.2 million, gross loans amounted to US\$7,326.7 million, US\$6,866.5 million and US\$6,310.0 million, and total deposits amounted to US\$6,720.5 million, US\$6,604.2 million and US\$6,103.5 million, with consolidated equity of US\$1,007.7 million, US\$947.8 million and US\$877.8 million. Our consolidated net profit totaled US\$45.8 million for the year ended December 31, 2016, US\$94.7 million for the year ended December 31, 2015 and US\$76.8 million for the year ended December 31, 2014 and our consolidated net profit from continuing operations totaled US\$45.8 million for the year ended December 31, 2016, US\$70.0 million for the year ended December 31, 2015 and US\$61.3 million for the year ended December 31, 2014. As of June 30, 2017, our total assets amounted to US\$9,354.9 million, gross loans less net fees plus interest receivable amounted to US\$7,531.5 million, and total deposits including interbank time deposits amounted to US\$6,883.3 million, and our consolidated equity was US\$1,048.6 million. Our consolidated net profit totaled US\$41.6 million for the six months ended June 30, 2017.

We maintain a diverse portfolio of loans, which as of June 30, 2017, consisted of 45.5% Corporate & Government loans and 54.5% Retail & SMEs loans. As of December 31, 2016, our Corporate & Government banking businesses has the second-largest market share (12.9%) of commercial loans in Panama. We are the market leaders in some industry sectors: as of December 31, 2016 we hold the largest share of outstanding loans in the industrial sector (14.9%) and the second-largest share in the construction sector (16.8%). Our residential mortgage

loan portfolio had a market share of 16.7% and our consumer loans portfolio had a market share of 14.4%, while our overall Retail & SMEs loan portfolio had a market share of 12.0%.

We have had sustained growth in loans and total assets in recent years, with annual growth rates of 2.8%, 7.3% and 3.1% in terms of assets and 5.8%, 8.8% and 11.6% in terms of net loan portfolio in 2016, 2015 and 2014, respectively. Our annual growth rates in terms of assets and in terms of net loan portfolio for the six months ended on June 30, 2017 were 4.4% and 5.5%, respectively, compared to June 30, 2016. Our annual growth rates in terms of assets and in terms of net loan portfolio for the year ended December 31, 2016 were 2.8% and 5.8% respectively, and for the year end December 31, 2015 were 7.3% and 8.8%. Despite the increase in size of our loan portfolio, and the increase in our NPL Ratio in 2016, our loan portfolio continues to maintain strong credit quality, with non-performing loan ratios (measured at 90 days) of 2.1%, 1.8% and 1.7% as of December 31, 2016, 2015 and 2014, respectively. Our total growth rate in terms of assets and in terms of net loan portfolio as of June 30, 2017 from June 30, 2016 were 4.4% and 5.5% respectively.

We are well-capitalized and our capitalization levels are aligned with the average capitalization levels of the National Banking System. Our equity consists of paid-in capital, capital reserves, reserves for revaluation of financial instruments and retained earnings. Under the Banking Law, as of June 30, 2017, we are required to maintain an Adjusted Capital of not less than of US\$514.3 million, or 8% of our total risk weighted assets of US\$6,429.1 million. On June 30, 2017 we had total capital of US\$934.7 million, or 81.7% above the minimum total capital required. Our consolidated capital adequacy index as of December 31, 2016, 2015 and 2014 was 14.4%, 14.2% and 13.6%, respectively, compared to average capital adequacy levels of 15.1%, 14.9% and 14.7% on the same dates for the National Banking System.

In 2016, we generated a 4.6% return on equity and a 0.5% return on assets, compared to average returns of 12.1% and 1.3%, respectively, for members of the National Banking System. In 2015 we generated a 10.4% return on equity and a 1.1% return on assets, compared to members of the National Banking System, who generated returns of 14.1% and 1.4%, respectively. In 2014, our first full year as part of Grupo Bancolombia, we generated a 9.0% return on equity and a 0.9% return on assets. Our efficiency index was 59.1% for 2016, 61.4% for 2015 and 62.0% for 2014, compared to average efficiency indexes for all members of National Banking System of 58.6%, 58.5% and 55.9%, respectively.

The following table shows certain indicators of our consolidated results of operations and financial position as of and for the periods indicated.

	As of and for the six months ended June 30,		As of and for the year ended December 31,		
	2017	2016	2016	2015	2014
	<i>(Amounts in US\$ millions)</i>				
Total assets.....	9,354.9	8,963.6	9,174.1	8,920.9	8,312.2
Gross Loans less net fees plus interest receivable.....	7,631.1	7,181.4	7,265.9	6,820.6	6,271.3
Loans, net <sup>(1)</sup> .....	7,390.1	7,003.8	7,143.7	6,754.3	6,208.8
Total customers' deposits.....	6,335.1	6,012.3	6,321.3	6,251.6	5,930.9
Net profit.....	41.6	32.1	45.8	94.7	76.8
Total equity.....	1,048.6	976.4	1,007.7	947.8	877.8
Regulatory Capital to Risk-Weighted Assets Ratio.....	14.5%	14.7%	14.4%	14.2%	13.6%

(1) Total loans minus allowance for loan-losses.

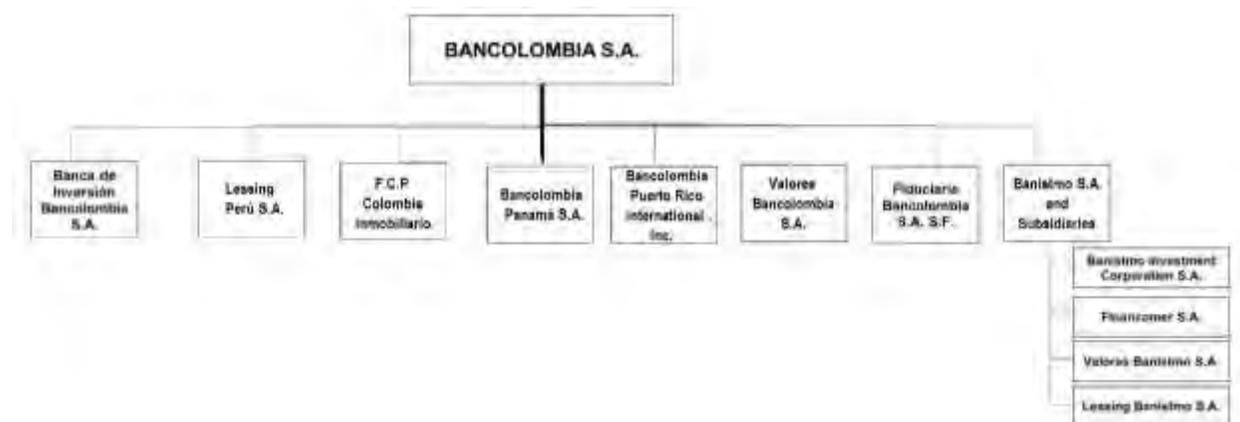
## Our History

Banco del Istmo S.A., our predecessor, began its operations in 1984. Banco del Istmo S.A. grew in subsequent decades through various mergers and acquisitions, including the acquisition of Bancolat in 2002. Banco del Istmo S.A. first changed its name to Primer Banco del Istmo S.A. and later to Banistmo in 2000. In 2006, Banistmo was acquired by HSBC, which had been operating in Panama since 1972. HSBC was the controlling shareholder of Banistmo until our acquisition by Bancolombia in October 2013. As of the date of this Offering Memorandum, Bancolombia remains our sole shareholder. In August 2015, we sold our subsidiary Seguros

Banistmo S.A. to Suramericana, S.A., an affiliate of Bancolombia’s largest shareholder, Grupo de Inversiones Suramericana S.A. (“Grupo Sura”).

### Our Stockholders and Group Affiliates

The following chart presents our corporate structure within the broader Grupo Bancolombia and shows our operating subsidiaries, as of December 31, 2016:



Since October 2013, Banistmo has been a part of Grupo Bancolombia and a wholly-owned subsidiary of Bancolombia. With more than 140 years of experience in the financial industry, Bancolombia offers a broad net of financial products and services to a diversified individual and corporate base of more than 11 million customers, and is one of the largest banking networks in Latin America with 1,087 branches, 5,439 ATMs and over 8,887 non-banking agents.

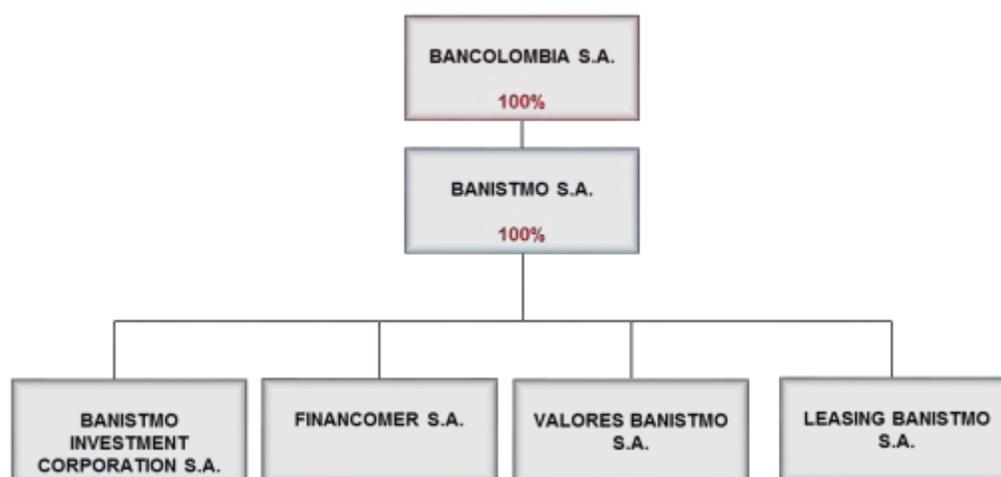
Bancolombia is rated Baa2 by Moody’s, BBB- by S&P and BBB by Fitch. As of June 30, 2017, Bancolombia had gross loans of approximately US\$51,872 million, managing more than US\$66,778 million in assets and US\$59,212 million in liabilities. In 2016, Grupo Bancolombia had a return on equity of 14.5%, a return on assets of 1.5% and a net interest margin of 6.0%. For the same period, the financial efficiency index stood at 51.0%.

Other affiliates of Bancolombia include Banco Agrícola and Banco Agromercantil. Banco Agrícola is a 97.36%-owned affiliate of Bancolombia and, as of June 30, 2017, was the leading bank in El Salvador by gross loans, having 95 branches, over 574 ATMs and over 1.2 million customers. Banco Agromercantil is a 60%-owned affiliate of Bancolombia and, as of June 30, 2017, was ranked fourth by loans in Guatemala, having 204 branches, over 182 ATMs and over 0.9 million customers.

Bancolombia is listed on the Colombian and New York Stock Exchanges. Its largest shareholder is Grupo Sura, a Latin American conglomerate, and majority shareholder of Sura Asset Management S.A. and Suramericana de Seguros S.A., among others.

## Our Corporate Structure

The following is our corporate structure chart, showing our operating entities:



In addition to the entities identified in the chart above, Banistmo has non-operating entities that hold certain of the Bank's assets or repossessed assets or that are involved in administrative or judicial proceedings. Below is a brief description of each of the entities listed above, each of which is wholly owned by Banistmo:

- Banistmo Investment Corporation is mainly engaged in managing trusts and acting as escrow agent, and has a fiduciary license granted by the Superintendency of Banks. As of June 30, 2017, Banistmo Investment Corporation had total assets of US\$17.7 million and total liabilities of US\$0.5 million, and accounted for 1.4% of our net profit for the six months ended June 30, 2017. We consider Banistmo Investment Corporation an important asset as its fiduciary license enables Banistmo to service other markets from Panama.
- Financomer is primarily engaged in granting loans or other credit facilities to individuals and businesses (mainly retirees and government workers). It is authorized to operate as a financial company through Resolution No. 10 of August 10, 1989 of the Financial Companies Department of the Ministry of Commerce and Industries. As of June 30, 2017, Financomer had total assets of US\$134.6 million and total liabilities of US\$95.8 million, and accounted for 3.8% of our net profit for the six months ended June 30, 2017.
- Valores Banistmo is mainly engaged in the purchase and sale of securities or financial instruments on behalf of third parties or for its own account, as well as the offering and opening of investment accounts. Valores Banistmo operates on the Panama Stock Exchange (*Bolsa de Valores de Panama*) through a stock broker. As of June 30, 2017, Valores Banistmo had assets under management of US\$1.9 billion, total assets of US\$39.3 million, total liabilities of US\$3.0 million and accounted for (0.6)% of our net profit for the six months ended June 30, 2017. Valores Banistmo operates under two licenses: a Broker-Dealer License authorized by Resolution CNV No. 224-05 and an Investment Manager license authorized by Resolution CNV No. 230-08, both issued by the Superintendence of Capital Markets.
- Leasing Banistmo is mainly engaged in leasing activities for our customers. As of June 30, 2017, Leasing Banistmo had total assets of US\$150.1 million and total liabilities of US\$123.8 million, and accounted for 1.1% of our net profit for the six months ended June 30, 2017. Leasing Banistmo operates under finance lease license No. 7493 granted through Resolution 371 of January 28, 1991.

Banistmo has a representative office in Guatemala that is dedicated to promoting business and providing financing services in that country. We are also developing a promotion and marketing scheme in Colombia for the promotion and publicity of products and services in the Colombian market and to our customers through

Bancolombia. Through this arrangement, Banistmo representatives will have the opportunity to carry out marketing campaigns, engage with customers, perform collection activities and offer information regarding our financial products.

## **Our Competitive Strengths**

We believe we benefit from the following competitive strengths:

### ***A leading banking institution in Panama***

Banistmo is a widely recognized franchise in Panama, with a strong brand and solid reputation in the Panamanian banking system, a wide variety of financial products and services and diversified and stable sources of funding. As a result, we believe we are well-positioned to remain competitive as one of the leading banks in Panama.

We have over 575,000 customers and, as of December 31, 2016, we were Panama's second-largest privately-owned financial institution, holding a market share of 10.8% of total outstanding loans, 12.0% of total customers' deposits, 9.1% of total assets, 3.0% of net profit, 12.9% of corporate loans, 14.4% of consumer loans and 16.7% of residential mortgage loans, in each case as compared to other privately-owned financial institutions in Panama.

As of June 30, 2017, our total assets amounted to US\$9,354.9 million, gross loans less net fees plus interest receivable amounted to US\$7,531.5 million and total deposits including interbank time deposits amounted to US\$6,883.3 million, with consolidated equity of US\$1,048.6 million. Our consolidated profit totaled US\$41.6 million for the six months ended June 30, 2017.

Banistmo has credit ratings of BBB- by S&P and BBB by Fitch.

### ***Unique sponsorship from Grupo Bancolombia, supporting our business strategy and future growth***

Since October 2013, Banistmo has been part of Grupo Bancolombia, as a wholly-owned subsidiary of Bancolombia S.A. Our close relationship with Bancolombia has allowed us to share best practices with respect to a wide range of policies, procedures and operations. We have also leveraged Bancolombia's expertise to bring new products to market, which we believe provides us with a competitive advantage. With critical support from Bancolombia, we have undertaken several measures designed to grow our income, reduce our costs and improve our risk management and compliance processes:

#### *Income Growth Measures.*

- We have introduced or expanded a number of new products, including:
  - “bancassurance” products underwritten by a subsidiary of Grupo Sura, a major shareholder of Bancolombia;
  - leasing products, a business we have vastly expanded with the support of Grupo Bancolombia's expertise as a market leader in leasing in Colombia;
  - investment products offered through our subsidiary Valores Banistmo, a subsidiary that has been merged with the brokerage business that Bancolombia operated in Panama before acquiring us, giving us access to Bancolombia's existing customer base;
  - “App Banistmo,” our Banistmo smartphone app, which we were able to roll-out quickly because we used the same vendor that Bancolombia used to develop its own app;
  - our digital wallet, “Nequi,” which uses the same underlying software as Bancolombia's comparable product, and a product which we were the first bank in Panama to introduce.
- We have repositioned the marketing efforts for our credit card business to optimize revenues from this product line, based on learning and experience provided by Bancolombia including

by entering into partnerships with airlines and other vendors to enhance our loyalty programs associated with the credit cards we issue. In addition, we have recently added new features to our loyalty program to allow its members to redeem points simply by presenting their credit cards when shopping at participating merchants.

#### *Cost Control and Efficiency Measures*

- The design and construction of our virtual branch, “Sucursal Virtual Personas,” is based closely on a comparable tool offered by Bancolombia.
- We, and other members of Grupo Bancolombia, have renegotiated important procurement contracts at a regional level, using the larger scale of Grupo Bancolombia to drive cost savings.
- Our information technology operations have become increasingly integrated with those of Bancolombia since our transition services contract with HSBC expired in the second quarter of 2015. Bancolombia hosts our servers in Colombia, and our disaster recovery operations are co-located with those of Bancolombia. Our association with Bancolombia also gives us access to leading vendors of IT products and services, in particular cybersecurity services, on terms that we might not have been able to achieve on our own.
- The development of non-banking agents, which increases efficiency, reduces the costs of serving our clients and is a concept that we have leveraged from Bancolombia, which has implemented these strategies for several years.

#### *Risk Management and Compliance*

- We have modified our credit approval processes to align with those of Bancolombia. For proposed large corporate loans, we have implemented a regional credit approval process that involves senior executives from Bancolombia in the approval process for such large loans.
- We have also aligned our risk management policies for liquidity, interest rate risk and capital risk to conform with those of Bancolombia.
- We have integrated “Monitor Plus,” an anti-money laundering transaction monitoring system also used by some of Bancolombia’s other affiliates in Central America (BAM and Banco Agricola), into our anti-money laundering compliance framework.
- Our Anti-Money Laundering Committee, which reviews our anti-money laundering compliance efforts, includes members of our Board of Directors who are also senior executives at Bancolombia and meets bimonthly.
- Our close relationship with Grupo Bancolombia allows us to benefit from their supervision, guidance and experience. A majority of the members of our Board of Directors are executives of Bancolombia.

For more information on our risk management policies, see “*Risk Management.*”

As a result of our relationship with Grupo Bancolombia, we have adopted a strategic segmentation of our business through which we are able to explore synergies between our Corporate & Government and Retail & SMEs business units. We expect to continue to grow our business in a sustainable manner with the support of Grupo Bancolombia by increasing the amount of transactions in which our Corporate & Government banking division

participates as a result of its affiliation with Grupo Bancolombia and the resulting access to more markets and bigger clients. We also intend to continue to expand our presence in the Retail & SMEs market and to develop new products to meet the needs of our customers, capitalizing on opportunities for cross-selling products and services and leveraging Bancolombia's broad network of branches and services in Colombia, in Guatemala (through BAM) and El Salvador (through Banco Agrícola).

### ***Panama's growing economy and healthy financial system***

Panama is an open and competitive economy (ranked the second most competitive in Latin America by the World Economic Forum in its Global Competitiveness 2016-2017 report), based on international commerce supported by the Panama Canal, the Colon Free Zone (which includes international trade-related services for electronics, pharmaceuticals, liquor, textile, jewelry and toys, among others) and the seaports. Panama has one of the highest GDP growth rates in Latin America, amounting to 6.1% in 2014, 5.8% in 2015 and 4.9% in 2016 and 6.2% for the period from January to March 2017. Panama's unemployment rate remained steady at 4.8%, 5.1% and 5.5% in 2014, 2015 and 2016, respectively, and inflation remained relatively low, at 2.6%, 0.2% and 0.7% in 2014, 2015 and 2016, respectively.

Panama boasts a sophisticated and dynamic financial industry, ranked 15th overall worldwide by the World Economic Forum and sixth in ease of adopting technologies largely as a result of the significant presence of large multinational corporations. The financial industry is bolstered by a strong consumer culture and a bancarization index (measuring the number of local gross loans as a percentage of GDP) of 88% of GDP, which is the highest in Latin America. As of December 31, 2016, the National Banking System had assets totaling US\$101,152.4 million, increasing by 3.8% from December 31, 2015. Gross loans amounted to US\$64,524.9 million and investments in securities amounted to US\$16,390.6 million, in each case as of December 31, 2016, increasing by 4.5% and 2.2%, respectively, as compared to December 31, 2015. The National Banking System registered returns on assets of 1.3% and returns on equity of 12.1% on average as of December 31, 2016.

The National Banking System is well capitalized, and our levels are aligned with the National Banking System's average capitalization levels. Our consolidated capital adequacy index as of December 31, 2016, 2015 and 2014 was 14.4%, 14.2% and 13.6%, respectively, compared to the National Banking System's average capital adequacy levels of 15.1%, 14.9% and 14.7%, respectively. As a result, we believe we are well positioned to take advantage of the continuing growth of the Panamanian economy.

### ***Extensive nationwide network***

Banistmo has an extensive nationwide network, with a presence in nine of Panama's ten provinces. Banistmo distributes its products and services through one of the broadest networks in the country, which has grown from 359 to 510 service points from December 2014 to June 2017, principally due to the expansion of our ATMs and non-banking agents (third parties that are connected to us through real time data transmission systems and that offer our services to current and prospective customers). As of June 30, 2017, our network had 327 ATMs, 132 non-banking agents and 51 branch offices. Additionally, our network consists of a corporate headquarters, a representative office in Guatemala, a promotion and marketing scheme in Colombia, a virtual branch, a mobile app, call center services, a digital messaging platform and our digital marketing through Twitter, Facebook and Instagram. Our electronic network has had growing success, with approximately 92.6% of all currency transactions being made through electronic means in 2016, as compared to 89.1% in 2015 and 87.0% in 2014. This network provides customers with convenient access in a cost-effective manner for our business.

The following table sets forth information on our points of service for 2014, 2015, 2016 and 2017:

	Total Points of Service	ATMs	Branches and Non-Banking Agents
<b>As of December 31, 2014</b>	359	304	53
<b>As of December 31, 2015</b>	461	323	138
<b>As of December 31, 2016</b>	484	328	164
<b>As of June 30, 2017</b>	510	327	183

The following map illustrates our presence throughout Panama as of June 30, 2017:



### ***Diversified business profile and sustained growth***

Through our core lines of business (Corporate & Government and Retail & SMEs), we are able to service our different customer segments according to their needs. From salaried workers to large investors, and from SMEs to large corporations, we serve our customers with qualified staff, providing sophisticated products and services that meet customers' needs quickly and efficiently.

We have developed a sophisticated and comprehensive business platform with a diverse business mix. As of June 30, 2017, we received 81.4% of our total income before provision from net interest income, 18.1% from fees and 0.5% from other sources of income. With respect to interest income, 93.8% of such income is interest derived from our loan portfolio, while 6.3% is interest on securities and interest on deposits with other banks. As of June 30, 2017, our loan portfolio was well-diversified, comprised of 9.4% commercial loans, 17.5% construction loans, 7.3% industrial loans, 8.7% personal loans, 29.0% residential mortgage loans, 6.8% SMEs loans and 21.3% other loans. As a result, we are not overly dependent on any particular sector of the economy. No single entity accounted for more than 2.0% of our loan portfolio. Our 20 largest borrowers accounted for 37.1% of total Corporate & Government loan portfolio.

We have also had sustained growth in loans and total assets in recent years, with annual growth rates of 2.8%, 7.3% and 3.1% in terms of assets and 5.8%, 8.8% and 11.6% in terms of our net loan portfolio in 2016, 2015 and 2014, respectively. For the six months ended June 30, 2017, our return on equity was 8.1% and our return on assets was 0.9% compared to 6.6% and 0.7%, respectively, for the six months ended June 30, 2016. For the year ended December 30, 2016, our return on equity was 4.6% and our return on assets was 0.5% compared to 10.4% and 1.1% for the year ended December 2015 and 9.0% and 0.9% for the year ended December 2014. In addition, we have had sustained growth for the last three years, with compound annual growth rates of 5.1% in terms of assets and 7.6% in terms of loans during the 2014-2016 period. Our annual growth rate for the six month period ended June 30, 2017 was 4.4% in terms of assets and 5.5% in terms of net loan portfolio, compared to June 30, 2016.

### ***Stable and diversified sources of funding with strong capital support***

We have a diversified and growing base of deposits and are able to support continued growth of assets at a low cost. As of June 30, 2017, our deposit base was 50.8% fixed-term deposits, 22.7% savings accounts, 18.5% current accounts and 8.0% interbank time deposits. As of December 31, 2016, our deposit base was 50.2% fixed-term deposits, 23.8% savings accounts, 20.0% current accounts and 6.0% interbank time deposits. We have the second-highest market share of deposits in the National Banking System as of June 30, 2017.

We maintain a low cost of funds. For the six months ended June 30, 2017, and the years ended December 31, 2016, 2015 and 2014, we paid total interest on deposits of US\$71.9 million, US\$126.0 million, US\$113.7

million and US\$107.5 million, on average deposits for those periods of US\$6,819.9 million, US\$6,559.1 million, US\$6,279.0 million and US\$5,907.1 million respectively, resulting in an average cost of deposits of 2.1%, 1.9%, 1.8% and 1.8% per annum, respectively. For the six months ended June 30, 2017, and the years ended December 31, 2016, 2015 and 2014, our total interest expenses were US\$88.0 million, US\$155.4 million, US\$134.8 million and US\$129.3 million on average total funding for those periods of US\$7,940.3 million, US\$7,755.6 million, US\$7,456.6 million and US\$7,036.9 million, respectively, resulting in a total cost of funds of 2.2%, 2.0%, 1.8% and 1.8% per annum, respectively, for such periods.

As of June 30, 2017, our total funding composition was 43.5% time deposits, 19.2% savings account deposits, 15.7% current account deposits, 6.8% interbank time deposits and 14.8% borrowings. As of December 31, 2016, our total funding composition was: 42.9% time deposits, 20.2% savings account deposits, 16.9% current account deposits, 5.0% interbank time deposits and 15.0% borrowings.

In terms of efficiency, for the six months ended June 30, 2017 our ratio of total general and administrative expenses to total income was 49.1% and our ratio of total general and administrative expenses to average interest-earning assets was 2.3%, whereas for the year ended December 31, 2016, our ratio of total general and administrative expenses to total income was 59.1% and our ratio of total general and administrative expenses to average interest-earning assets was 2.5%. The National Banking System averages were 58.6% and 2.3%, respectively, for the year ended December 31, 2016.

We intend to continue developing and taking advantage of our various sources of funding according to cost and availability and to continue to diversify our funding base by accessing the capital markets.

### ***Highly experienced management team***

Our senior management team has extensive experience in the banking industry, with each member having between 15 and 25 years of experience. The members of our Board of Directors each have between 25 and 30 years of experience in banking and financial services.

### **Our Strategy**

Our strategy since our acquisition by Bancolombia has focused on two main goals: first, to design our business in a customer-centric approach, structuring and directing all of our activities so as to better serve our customers; and second, to be a universal bank, capable of serving any type of individual or entity, from workers to high net worth individuals and from SMEs to big corporations. With these two goals in mind, we updated, and continue to update, the technology used in our operations, and we redesigned our approach to customer service and restructured our branches, among other measures.

Going forward, we intend to generate customer preference by strengthening the bond between our customers and our organization, the products and services we offer and our values; to continue to grow in the market segments in which we operate; to maintain an innovative culture; to attract employee talent; and to grow shareholder profit through sustainable growth.

We believe we are a market leader in terms of innovation, customer recognition and experience, and seek to continue to lead the market and to generate sustainable growth through the following strategic initiatives:

### ***Leverage the support and sponsorship of Grupo Bancolombia***

We plan to continue leveraging the support and sponsorship of Bancolombia to remain one of the leading financial institutions in Panama, and to form a key part of Grupo Bancolombia's regional platform in Central America, which is a cornerstone of Grupo Bancolombia's strategy.

Bancolombia's experience in our two core businesses is vital to our operations. As part of Grupo Bancolombia, we receive constant support from Bancolombia and leverage its know-how in the implementation of innovative methodologies, customer relationships and product design, among others. As a result, we are better

positioned to execute our growth strategies by focusing on new products and services as well as strategic alliances, which in turn helps us to develop our brand awareness as a trend setter in the Panamanian banking market. We are also able to leverage Grupo Bancolombia's favorable perception and reputation in the region to enhance our efforts to attract customer deposits.

We have also developed important partnerships, for example with airlines to market credit cards, which were not part of our core business before our acquisition by Grupo Bancolombia. We also have launched other digital initiatives, such as our mobile app "App Banistmo" and "Nequi," a mobile wallet.

Being a part of Grupo Bancolombia's regional platform also allows us to take advantage of the experience acquired by Grupo Bancolombia through its presence in different markets and gives us access to best-in-class suppliers at advantageous pricing terms. In addition, since being acquired by Grupo Bancolombia, we have enhanced key areas of our operations, such as our cyber-security network, thanks to the implementation of ISOC a cyber-security software. We are also digitalizing our processes under a software license negotiated by Grupo Bancolombia, and investing in document management and data analytics ("big data"), leveraging the technological capacity of Grupo Bancolombia. See "*Our Competitive Strengths - Unique sponsorship from Grupo Bancolombia, supporting our business strategy and future growth.*"

Through the implementation of Grupo Bancolombia's best practices at a regional level, we plan to continue reducing operational costs and improving our risk models and credit metrics in order to continue achieving sustainable growth.

#### ***Continue to strengthen our operational and financial efficiency***

The growth of our business challenges us to further strengthen our operations in order to consistently provide our customers with robust services across our multiple platforms. We intend to make significant investments over the next several years to update our core banking system and other technology platforms to provide our customers with services of the highest quality that meet their needs, while at the same time allowing us operate more efficiently. These investments will include the development of a new technological platform, which will include new accounting systems, development of new customer relations management tools and data warehouses, and big data capability, among others. We believe these investments will increase the overall efficiency of our operations, while also decreasing the time required to implement new internal procedures and roll out new products.

Additionally, we continue to improve our security systems, which is required in light of the increasing levels of automation and digitization in our business operations. All of these initiatives are supported by the expertise of Grupo Bancolombia, which shares its best practices with us and provides us with access to technology services at competitive pricing terms.

#### ***Commitment to our customers and employees***

A key corporate strategy is the continuous strengthening of our connection with customers through our products and services. We work to deliver efficiently superior quality products and services that our customers need, and we seek to exceed their expectations and demonstrate operational and technological excellence in doing so, thereby enhancing their loyalty to us. We aim to be convenient and accessible to our customers, as evidenced by the number of our branches, our wide ATM network, the distribution of our non-banking agents and the availability of customer service resources and reliable digital and mobile channels. We will continue to grow our network by expanding our use of non-banking agents, which provide us a cost-efficient way to grow and reach additional customers, and by also expanding the types of transactions that customers can execute through digital and self-management processes.

To be the most convenient option for our customers we need to retain the most qualified talent. We therefore seek to implement a high-performance culture in which we value employee excellence and recognize our employees when they exceed expectations. We also promote ethical values and professional development, through periodic training to provide our employees with the necessary skills to serve our customers and to grow professionally.

### ***Continue to innovate to improve customer experience***

Technology has created new opportunities for us, enabling new distribution channels while breaking the traditional model and penetrating new markets. Following our acquisition by Bancolombia, we have begun to implement a robust innovation strategy with a focus on digital services. We are implementing mobile and digital experiences to be always “at hand” where, when and how the customer needs us. The launch of our mobile application in October 2015 was one of our first major steps in this direction. As of June 30, 2017, our mobile application had 97,812 downloads, 42,814 active customers and a 4.4/5 rating in online application stores. We also recently launched “Nequi,” a mobile wallet, and “Chat Banistmo,” a messaging platform that allows us to interact with our customers. In implementing these initiatives we benefit from the know-how gained by Bancolombia. We are committed to continuing to develop our digital channels to add features for the benefit of our customers.

Another strategic front is the development of non-traditional channels for customer experience. In October 2015, we launched our non-banking agents program called “Banistmo By Your Side.” As of June 30, 2017, we have 132 non-banking agents with whom customers can work to find exclusive cashiers where they can make deposits and withdrawals from their accounts, pay utility bills, send local money orders and make credit card and loan payments, among many other services. This distribution channel provides us with a cost-efficient way to grow and reach additional customers. We also developed “Clave Giro,” a first-of-its-kind service in Panama, that enables Banistmo’s customers to securely send local money transfers 24 hours a day through our ATM network using their debit cards. These transfers are available to persons with or without access to banking services with the use of a virtual key code sent through a text message. We also plan to make investments to expand the types of transactions that customers can execute through digital and self-management processes.

We aim to be convenient and accessible to our customers, as evidenced by the number of our branches, our wide ATM network, the distribution of our non-banking agents and the availability of customer service resources and reliable online channels. We believe that these initiatives will help us to improve efficiencies, cost structure and profitability. We believe that, thanks to the support of Grupo Bancolombia, we are able to bring innovative products to market in a faster and more efficient way, as we generally leverage on Bancolombia’s know-how and service providers used by Bancolombia or other group affiliates, which allow us to reduce our costs as well as time-to-market.

For more information on our distribution channels, see “*Business–Distribution Channels.*”

### ***Continue to implement solid policies on credit risk and risk management***

We maintain a well-diversified and balanced loan portfolio across customers and sectors, supported by a strict and systematic credit approval process that is tailored to the size of each potential credit and in line with international practices and standards of credit approval by Grupo Bancolombia. Our comprehensive risk management involves the identification, assessment, monitoring, control and mitigation of all risks to which the bank is exposed. These include credit, market, liquidity, operational, legal and regulatory compliance, strategic, reputational and behavioral risks. We employ value-at-risk analyses and stress testing, and we employ analyses of interest rate metrics, liquidity and cash flow gaps per currency and evaluation of liquid assets, among others. We plan to continue to strengthen and implement solid policies on credit risk and risk management. For more information on our risk management policies, see “*Risk Management.*”

### **Organizational Structure**

Our organizational structure promotes the development of products and services that meet the specialized needs of our customers.

We are divided into two customer-facing divisions:

- Retail & SMEs (Small and Medium Enterprises) banking; and
- Corporate & Government banking;

and eight support areas:

- Audit;
- Risk;
- Legal and General Secretary;
- Corporate Services;
- Finance and Strategy;
- Communications and Humane Banking Experience;
- Digital Transformation and Innovation; and
- Human Resources.

### **Lines of Business**

We are a full-service commercial bank, serving over 575,000 customers through our core business lines: Retail & SMEs and Corporate & Government banking. Among the products that we offer are deposit products (including checking and savings accounts and time deposits), investment products, credit products (including loans, leases and debit and credit cards), international products (including currency exchanges, bank transfers in foreign currencies, other services in foreign currencies and remittance services) and other specialized financial products and services. Our subsidiary Valores Banistmo specializes in capital markets and investment banking solutions for our clients. In addition, we offer our customers certain non-financial services, such as access to insurance products and other complementary services.

### ***Corporate & Government Banking***

Our Corporate & Government banking business line is responsible for addressing local and international corporations, as well as Panamanian government and public sector institutions. It is focused on achieving sustainable growth and leadership in customer preference among the corporate segment in general, and has extensive experience in the commercial, industrial, construction and foreign trade sectors in particular. As a result, we maintained the second-largest market share in corporate loans at 12.9% as of December 31, 2016,. As of June 30, 2017, our Corporate & Government banking loan portfolio represented 45.5% of our total loan portfolio, and Corporate & Government banking deposits represented 30.3% of our total deposits.

Through a personalized management model, we serve our customers and all of the participants in their value chains with a team of relationship managers and specialists.

Our Corporate & Government loan portfolio is divided into six categories corresponding to the economic activity of our customers:

1. *Commercial:* Commercial loans represent 20.7% of the Corporate & Government loan portfolio. As of June 30, 2017 we had a US\$709.0 million Commercial loan portfolio in the Corporate & Government unit, which represents a 9.8% increase as compared to June 30, 2016.
2. *Construction:* Construction loans represent 38.5% of the Corporate & Government loan portfolio. As of June 30, 2017 we had a US\$1,319.0 million Construction loan portfolio in the Corporate & Government unit, which represents a 27.3% increase as compared to June 30, 2016.

3. *Government*: Government loans represent 1.7% of the Corporate & Government loan portfolio. As of June 30, 2017 we had a US\$58.3 million Government loan portfolio in the Corporate & Government unit, which represents a 59.6% decrease as compared to June 30, 2016.
4. *Industrial*: Industry loans represent 16.1% of the Corporate & Government loan portfolio. As of June 30, 2017 we had a US\$550.7 million Industrial loan portfolio in the Corporate & Government unit, which represents a 33.3% increase as compared to June 30, 2016.
5. *Offshore*: Offshore loans represent 10.5% of the Corporate & Government loan portfolio. As of June 30, 2017 we had a US\$359.5 million Offshore loan portfolio in the Corporate & Government unit, which represents a 24.7% decrease as compared to June 30, 2016.
6. *Colon Free Zone*: Colon Free Zone loans represent 12.6% of the Corporate & Government loan portfolio. As of June 30, 2017 we had a US\$430.1 million Colon Free Zone loan portfolio in the Corporate & Government unit, which represents a 20.2% decrease as compared to June 30, 2016.

For operational purposes we segment our Corporate & Government banking business into three groups: commercial, products and support:

1. *Commercial*: Our relationship managers are organized in three groups each of which focuses on particular types of clients: Government and Financial Institutions, Real Estate and Construction, Colon Free Zone and Commercial. This form of organization allows our bankers to enhance their understanding of our clients' needs.
2. *Products*: Our products teams, which include Investment Banking, Transaction Units, Foreign Trade and Financing, Sales and Trading, Leasing, Trusts and Agency, support all of our relationship managers and their customers.
3. *Support*: Our Business Management, Marketing and Service areas provide different types of support to the commercial and products teams, ranging from the preparation of reports to the organization of corporate events.

We offer the following Corporate & Government banking products:

- **Loans**: Loans are used for short-term working capital, investment in property, plant and equipment and construction, among others, and are usually amortizing loans subject to one or multiple disbursements, with some exceptions. Approximately 90% of our Corporate & Government loan portfolio corresponds to local borrowers, whereas approximately 10% of the outstanding loans are offshore. The following are our main loan products:
  - (i) *Commercial loans*: Loans for the financing of a fixed asset (usually guaranteed by that same asset), with scheduled amortizations of capital and maturities of up to 15 years.
  - (ii) *Overdraft lines*: Credit lines that will allow the customer to overdraw from its account up to a predetermined limit.
  - (iii) *Corporate credit cards*: Business credit cards that cover the day-to-day needs of owners and senior managers of corporate customers.
  - (iv) *Revolving credit lines*: Short-term credit lines for working capital or import loan financing. These loans usually have a bullet payment of principal at maturity.
  - (v) *Short-term loans*: Multi-purpose loans with terms of under one year.

- **Deposits:** Customers can access checking accounts, savings accounts or time deposits. Checking accounts include regular checking accounts and foreign-currency checking accounts, whereas savings accounts include electronic savings accounts, regular savings accounts and term-restricted savings accounts. Time deposits include fixed-time deposits with tenors from 30 days to five years.
- **Trust services:** We offer trust services through our subsidiary Banistmo Investment Corporation S.A. Such trust services include guaranty, administrative and investment trusts. We also serve as administrative agent for syndicate loans and as paying agent and registrar for local issuers of debt securities.
- **Investment banking:** Our investment banking team helps our corporate clients meet their medium and long-term financings needs through structured finance, project finance and capital markets activities. We also advise customers on strategic decisions to purchase or sell assets or businesses in the region through M&A transactions.
- **Leasing:** We finance the acquisition of movable assets, new or used, including cars, heavy machinery and industry machinery, among others.
- **Foreign Exchange and Derivatives:** Our foreign exchange team purchases and sells foreign currency in spot and forward transactions. We also act as agent for our customers with respect to interest rate and cross-currency swaps.

### ***Retail & SMEs Banking***

The Retail & SMEs banking division focuses on providing a full range of banking products and services to our Retail & SMEs customers. As of December 31, 2016, Banistmo had the second-largest share of the Retail & SMEs loan market with a 14.4% market share. As of June 30, 2017, our Retail & SMEs loan portfolio represented 54.5% of our total loan portfolio, and Retail & SMEs deposits represented 69.7% of total deposits. From 2013 to December 2016, our Retail & SMEs business grew by 16% in terms of customers, 36% in terms of assets and 9.5% in terms of liabilities.

We aspire to be the leading financial institution in this business. To that end, we focus our work on better understanding our customers and their needs, innovating through digital channels, being the most convenient option to the customer and having a presence wherever our customers need us.

Our Retail & SMEs loan portfolio is divided into seven categories corresponding to the economic activity of our customers:

1. *SMEs:* SMEs loans represent 12.5% of the Retail & SMEs loan portfolio. As of June 30, 2017 we had a US\$511.8 million SME loan portfolio in the Retail & SMEs unit, which represents a 24.8% increase as compared to June 30, 2016.
2. *Personal Loans:* Personal Loans represent 15.9% of the Retail & SMEs loan portfolio. As of June 30, 2017 we had a US\$653.0 million personal loan portfolio in the Retail & SMEs unit, which represents a 2.1% increase as compared to June 30, 2016.
3. *Financomer:* Financomer, a subsidiary of Banistmo, represents 3.0% of the consolidated Retail & SMEs loan portfolio. As of June 30, 2017 we had a US\$123.8 million Financomer loan portfolio in the Retail & SMEs unit, which represents a 10.3% increase as compared to June 30, 2016.
4. *Vehicle:* Vehicle loans represent 3.5% of the Retail & SMEs loan portfolio. As of June 30, 2017 we had a US\$142.6 million vehicle loan portfolio in the Retail & SMEs unit, which represents a 19.7% decrease as compared to June 30, 2016.

5. *Credit Cards*: Credit cards represent 5.9% of the Retail & SMEs loan portfolio. As of June 30, 2017 we had a US\$240.6 million credit card portfolio in the Retail & SMEs unit, which represents a 15.2% increase as compared to June 30, 2016. This represented 72,136 credit card accounts and 244,843 debit card accounts issued.
6. *Residential Mortgages*: Residential Mortgages represent 53.3% of the Retail & SMEs loan portfolio. As of June 30, 2017 we had a US\$2,187.0 million mortgage loan portfolio in the Retail & SMEs unit, which represents a 8.0% increase as compared to June 30, 2016.
7. *Other Products*: Other product loans represent 6.0% of the Retail & SMEs loan portfolio. As of June 30, 2017 we had a US\$246.2 million other product loan portfolio in the Retail & SMEs unit, which represents a 5.9% increase as compared to June 30, 2016.

Our individual retail customers are segmented into four groups to which we provide different levels of customer service: Personal (deposits of less than US\$10,000), Plus (deposits over US\$10,000 and less than US\$100,000), Preferred (deposits over US\$100,000 and less than US\$1,000,000) and Private (deposits of more than US\$1,000,000). Our entity clients in this business line are classified as small SMEs (revenue of more than US\$12,000 and less than US\$1,000,000) or medium and large SMEs (revenue of more than US\$1,000,000).

The products and services offered by our Retail & SMEs banking are:

- **Loans**: We offer advisory services to our customers to educate them on the types of loans that best fit their needs. We offer different types of loans, such as:
  - (i) *Personal loans*: We offer a wide variety of loan options to our customers, with amounts starting at US\$1,000 and maturities of up to 25 years, depending on the type of loan.
  - (ii) *Vehicle loans*: We finance up to 90% of the acquisition cost of vehicles, depending on whether the vehicle is new or used and the type of vehicle (commercial or personal), offering payment terms up to 60 months.
  - (iii) *Residential Mortgage loans*: We offer a wide variety of mortgage loans in order to meet the diverse needs of our clients. Mortgage loans are granted for first-time house purchasers as well as for customers looking to acquire a second real estate asset.
- **Deposit accounts**: We offer a wide variety of deposit products to customers who entrust their funds to us, either for savings or for transactions. Within the deposit accounts we offer accounts such as:
  - (i) *Savings accounts*: Accounts designed to enable our customers to save for future investments. Savings accounts allow our customers to access their funds whenever they want to draw their saved amounts.
  - (ii) *“Navicuenta” or Christmas savings accounts*: Accounts designed to help our customers achieve savings in advance of end-of-year festivities. Amounts in this type of account remain unavailable until December of any given year.
  - (iii) *Special purpose savings accounts*: Accounts that enable our customers to set up saving objectives with certain deadlines, ranging from 12 to 60 months, as chosen by the customer.
  - (iii) *“Banikids” accounts*: Accounts specified for children, in order to encourage savings by the younger generations.

(iv) “*Intercuenta*” accounts: Accounts that allow customers to earn daily interest.

(v) *Fixed-term deposit accounts*: Deposits into these accounts can only be drawn by the customers after the expiration of the fixed term selected by the customer. Upon expiration of the term, a new term is automatically renewed for the same period of time and at the same interest rates, unless the customer provides written instructions five days in advance of such expiration.

- **Insurance Products:** Through our relationship with the insurance provider Suramericana de Seguros S.A. (Sura), we offer life, personal accident, home, credit card, fraud and unemployment insurance services. As of June 30, 2017, 9.1% of our total net profit came from the insurance services we offer.
- **Credit Cards and Debit Cards:** Our debit cards and credit cards are used in an extensive network of stores throughout Panama, through the Visa and MasterCard networks. Our credit cards can be used globally both online and directly in stores abroad. We offer different types of credit cards, based on the purposes and needs of our clients. Some of our current credit card products include Banistmo Mileage Plus MasterCard, Banistmo MasterCard Black and Platinum, Banistmo Regalate, Banistmo ConLaSele and Banistmo LifeMiles, among others. We have approximately 244,000 debit cards and 72,000 credit cards outstanding.
- **Other services:** we also offer our Retail & SMEs customers other services such as purchase alert notices through text messages, a customer service center and fraud insurance plans.

## Loan Portfolio

The following table sets forth the composition of our loan portfolio, including interest and less net fees, by type of credit as of June 30, 2017 and 2016. Percentages are percentages of gross loans less net fees plus interest receivable.

	<b>Banistmo S.A. and Subsidiaries</b>			
	<b>At June 30,</b>			
	<b>2017</b>		<b>2016</b>	
	<i>(Amounts in US\$ millions)</i>			
<b>Corporate &amp; Government</b>	<b>3,426.5</b>	<b>45.5%</b>	<b>3,288.6</b>	<b>46.4%</b>
Commercial .....	709.0	9.4%	645.5	9.1%
Construction.....	1,319.0	17.5%	1,040.3	14.7%
Government .....	58.3	0.8%	173.2	2.4%
Industrial.....	550.7	7.3%	413.3	5.8%
Offshore .....	359.5	4.8%	477.5	6.7%
Colon Free Zone .....	430.1	5.7%	538.9	7.6%
<b>Retail &amp; SMEs.....</b>	<b>4,105.0</b>	<b>54.5%</b>	<b>3,806.1</b>	<b>53.6%</b>
SME.....	511.8	6.8%	410.1	5.8%
Personal Loans.....	653.0	8.7%	639.7	9.0%
Financomer .....	123.8	1.6%	112.2	1.6%
Vehicles .....	142.6	1.9%	177.5	2.5%
Credit cards.....	240.6	3.2%	208.9	2.9%
Other products .....	246.2	3.3%	232.6	3.3%
<b>Residential Mortgages.....</b>	<b>2,187.0</b>	<b>29.0%</b>	<b>2,025.2</b>	<b>28.5%</b>
<b>Gross loans less net fees plus interest receivables .....</b>	<b>7,531.5</b>	<b>100.0%</b>	<b>7,094.8</b>	<b>100.0%</b>
Allowance for loan-losses <sup>(1)</sup> .....	141.4	1.9%	91.0	1.3%

<sup>(1)</sup> Excludes recovery reserves on interest receivables.

**Banistmo S.A. and Subsidiaries**  
**At December 31,**

	2016		2015		2014	
			<i>(Amounts in US\$ millions)</i>			
<b>Corporate &amp; Government</b> .....	<b>3,198.9</b>	<b>44.0%</b>	<b>3,290.5</b>	<b>48.2%</b>	<b>3,173.2</b>	<b>50.6%</b>
Commercial .....	635.4	8.8%	701.9	10.3%	1,163.5	18.6%
Construction.....	1,117.9	15.4%	1,005.6	14.7%	956.5	15.3%
Government .....	168.3	2.3%	128.0	1.9%	107.6	1.7%
Industrial.....	405.7	5.6%	497.8	7.3%	-	0.0%
Offshore.....	424.0	5.8%	441.3	6.5%	546.9	8.7%
Colon Free Zone .....	447.5	6.2%	515.9	7.6%	398.6	6.4%
<b>Retail &amp; SMEs</b> .....	<b>4,067.0</b>	<b>56.0%</b>	<b>3,530.2</b>	<b>51.8%</b>	<b>3,098.0</b>	<b>49.4%</b>
SME.....	505.3	7.0%	376.0	5.5%	321.9	5.1%
Personal Loans.....	762.8	10.5%	619.3	9.1%	572.1	9.1%
Financomer .....	117.4	1.6%	101.1	1.5%	92.7	1.5%
Vehicles.....	160.8	2.2%	179.5	2.6%	154.4	2.4%
Credit cards.....	239.3	3.3%	189.8	2.8%	169.8	2.7%
Other products.....	141.6	2.0%	197.5	2.9%	150.1	2.4%
<b>Residential Mortgages</b> .....	<b>2,139.7</b>	<b>29.5%</b>	<b>1,867.0</b>	<b>27.3%</b>	<b>1,637.0</b>	<b>26.1%</b>
<b>Gross loans less net fees plus interest</b>						
<b>receivables</b> .....	<b>7,265.9</b>	<b>100.0%</b>	<b>6,820.6</b>	<b>100.0%</b>	<b>6,271.3</b>	<b>100.0%</b>
Allowance for loan-losses <sup>(1)</sup> .....	122.1	1.7%	66.3	1.0%	62.5	1.0%

<sup>(1)</sup> Excludes recovery reserves on interest receivables.

## Distribution Channels

Our distribution strategy is multi-channel, with a major emphasis on non-traditional and digital channels, in order to satisfy the demand of a population that is increasingly technology oriented. Our ultimate goal is to offer our products and services in a simple and efficient manner, consistently throughout all our channels. Our strategy for distribution channels at Banistmo is being everywhere and available at all times the customer needs us.

### Branches

Banistmo has 43 branches, of which 16 are located in Panama City, 14 are located in Panama Center and 13 are located in Panama West. This distribution allows us to optimize network management. Our network also includes eight Financomer branches, four of which are located in Panama City and four of which are located in Panama West. Our branches offer the full range of products and services of Banistmo, such as personal loans, credit cards, mortgage loans, insurance products and vehicle loans, among others. In addition, customers can open and access their deposit accounts at our branches.

### Non-banking agents

We have expanded our network with the addition of 132 non-banking agents, through which we are able to assist customers when and where they need us. Through a third party provider, we offer non-banking agents to regions with a limited presence of branches and banking services and give customers the opportunity to make deposits, withdrawals, transfers and payments. Non-banking agents are distributed throughout the country: 76 in Panama Center and 56 in other areas of the country. In 2016, 2015 and 2014 we incorporated 31, 59 and 22 non-banking agents to our network, respectively. The addition of new non-banking agents is subject to review and approval by the Superintendency of Banks.

### ATMs

In addition to our branches, we provide an extensive network of 327 ATMs that offer cash withdrawal, payments, deposits and our most recent launch, Clave Giro services, a first of its kind service in Panama that allows unbanked people to securely transfer money 24 hours a day through our ATM network using a Banistmo key card. Our ATMs are distributed as follows: 222 are located in Panama Center and 105 are located in Panama's interior.

As of June 30, 2017, our ATM network accounted for 15.9% of ATMs in Panama and our ATM network processed 12.5% of all ATM transactions in Panama.

#### *Online and mobile banking*

Following our acquisition by Grupo Bancolombia, using support and know-how from Bancolombia, we redesigned “Sucursal Virtual Personas,” our online banking platform for our retail customers, in order to make it more interactive and user-friendly, and improve its technology. Through the improved platform customers can access their account information, request money transfers and apply for personal loans, among other products and services. We are currently upgrading “Conexión Empresarial,” our online banking platform for corporate customers, in order for it allow similar uses as the “Sucursal Virtual Personas.” This upgrade will enable our corporate customers to execute transactions through a simplified process and will expedite the authentication process, allow different authorization clearances to use each corporate customer’s account and increase the amount of information available online. In 2016, our online banking platform processed 129,262 transactions, which represented 43.4% of the total transactions processed by Banistmo, a 4.3% increase over web transactions processed in 2015.

In 2015, we launched App Banistmo, our mobile application. App Banistmo is an innovative product that includes functionalities not included in our competitor’s similar products. For instance, the app allows our customers to use geolocation services to locate branches, ATMs and non-banking agents. We are working continuously to develop new mobile services for our customers.

App Banistmo allows our customers to make payments and order transfers, provides them with our products and services offers and delivers points-of-service information. As of June 30, 2017, it had 97,812 downloads and 42,814 active customers. In 2016, App Banistmo processed 1,418,993 average transactions, which represented 18.4% of the total transactions processed by Banistmo. This was an 81.4% increase with respect to mobile transactions processed in 2015.

More recently, we have launched “Nequi,” a mobile wallet. Nequi allows customers to send and receive money instantly through their mobile devices.

Our electronic network has had growing success, with approximately 80% of all currency transactions being made through electronic means, which provides customers with convenient access in a cost-effective manner for our business.

#### *Call center*

We have a 24/7 call center available for our preferred clients. The staff is highly trained and bilingual in order to attend the needs of our clients. In 2016 our Call Center processed 43,623 average monthly calls, which represented 0.2% of the total transactions processed by Banistmo. This was an 11.3% increase over the number of transactions processed in 2015.

#### *Social Media*

We are present in social media through Twitter, Facebook, and Instagram, and we developed “Chat Banistmo,” a messaging platform that brings us closer to our customers and enables another direct communication channel with them.

#### **Employees**

As of December 31, 2016, we had 2,393 employees, including our subsidiaries’ employees, all of which were located in Panama. None of our employees belong to a union. We offer our employees benefits beyond those required by Panamanian law, such as life insurance, health insurance, covered medical visits and pension plan contributions. We also provide facilities to our employees such as recreational areas and lactation rooms. All of our employees are eligible to receive either monthly or year-end bonuses.

**Properties**

We are domiciled in Panama, with our headquarters located at Calle 50, Torre Banistmo, in Panama City. We own or lease a total of 59 properties throughout the country, including three administrative offices in Panama City (two owned and one leased from third parties) and 43 branches and services centers throughout the country (12 owned and 31 leased). Our network also includes eight Financomer branches.

**Licenses and Permits**

Banistmo is a corporation (*sociedad anónima*) organized under the laws of Panama established in Panama City, and authorized to operate as a General License Bank through Resolution No. 187-2004 of July 2, 2004.

**Legal Proceedings**

We are subject to a number of legal and administrative proceedings arising in the ordinary course of business, none of which we believe will have a material adverse effect on our financial condition or results of operations. See Note 21 in our last Audited Financial Statements included in this offering memorandum.

## RISK MANAGEMENT

### General

Risk management seeks to maintain our financial health by evaluating and controlling the risks we assume, recommending actions and policies, supplying management tools and monitoring risk, consistent with our desired risk profile, in order to maximize profits and create shareholder value.

Our Vice Presidency of Risk directs our strategy, policies and methodology to comprehensively manage the risks to which we are exposed. With the support of the Risk Management Committee, the Vice Presidency of Risk monitors our compliance with the legal requirements issued by the Superintendency of Banks and with our policies.

### Credit Risk

Credit risk is the risk that the debtor, issuer or counterpart of a financial asset owned by the Bank does not fully and timely comply with any payment due to the Bank, in accordance with the terms and conditions agreed when the respective financial asset was acquired or originated by the Bank. To mitigate credit risk, risk management policies establish the processes and controls to be followed for the approval of loans and granting of credit facilities.

The Credit Committee and Risk Management Committee assigned by the Board of Directors and senior management of the Bank periodically monitor the financial condition of debtors and issuers that present a credit risk to the Bank. The Bank has established the following procedures to manage credit risk:

#### *Establishment of credit policies*

Credit policies with respect to Corporate & Government and Retail & SMEs customers are developed in coordination with the respective business units and the risk units and are approved by the Risk Management Committee, which in turn reports to our Board of Directors.

#### *Establishment of authorization limits*

Authorization limits are approved by our Board of Directors, based on the recommendations of the Risk Management Committee.

#### *Limits of concentration and exposure*

Concentration and exposure limits, such as limits for specific industries, and limits for economic groups, are established when deemed necessary by the Risk Management Committee, taking into consideration the level of capital of the Bank and the size of the credit portfolio, and in order to comply with the current banking regulations in Panama.

#### *Development and maintenance of risk assessment*

Risk assessments are made individually for Corporate & Government customers and by portfolio and/or product for Retail & SMEs customers.

#### *Review of compliance with policies*

A review of compliance with policies is done by means of annual evaluations of commercial clients and monthly sampling of the portfolio for consumer clients. These assessments and samplings are periodically reviewed by the Audit Committee.

## **Liquidity Risk**

Liquidity risk is the risk of losses to the Bank arising from a difficulty in liquidating its assets or obtaining funding under normal conditions to meet the obligations associated with its liabilities. Liquidity risk may be affected by different factors, such as an unexpected withdrawal of funds by creditors or customers, a deterioration of the quality of the loan portfolio, a decrease in the value of securities, an excessive concentration of liabilities from one particular source, a gap between assets and liabilities, a shortage of asset liquidity or the mismatch of long-term asset financing with short-term liabilities.

Liquidity risk management policies establish a minimum level of liquid assets that need to be maintained to cover the expected maturity date of the Bank's liabilities and other disbursement obligations.

### *Management of Liquidity Risk*

Risk management policies establish a minimum of assets that should be maintained in high liquidity instruments in order to comply with daily requirements of cash resources, demand deposits, time deposits, loan disbursements and guarantees and margin requirements settled in cash.

The Board of Directors and our senior management have established minimum levels with respect to the proportion of available funds needed to comply with such requirements and with respect to the level of inter-banking facilities and other loan facilities that should exist to cover withdrawals in unexpected levels of demand. To ensure that we are meeting these minimum levels, we hold a short-term assets portfolio comprised mainly of liquid instruments, loans and advances from banks and other inter-banking facilities.

We periodically review and validate the policies, limits, processes, methodologies and tools used in the evaluation of our liquidity risk exposure in order to establish their relevance and functionality, and make necessary adjustments. Our management prepares periodic reports to monitor the evolution of liquidity risk exposure levels and established limits and alerts and provide support to the decision-making process.

### *Exposure to Liquidity Risk*

The liquidity risk of assets and liabilities is measured by projecting the expected future cash flows of both capital and interest. Cash flows can be affected by variables that affect payment behavior or withdrawals. Consequently, the liquidity risk analysis must take into account variables that influence payments or withdrawals, such as by applying a factor past due portfolio to future flows, or applying a deposit renewal rate. The flows are classified in predefined time bands and the difference between assets and liabilities is computed in order to obtain the liquidity gap for different time horizons. The survival horizon is obtained when the minimum liquid assets are not enough to offset the negative liquidity bands.

## Liquid Assets

In order to ensure the proper operation of the Bank's activities and financial services, our liquid assets are made up of available, high-quality securities and other securities classified according to their liquidity characteristics in the market. The following table shows our liquid assets for the periods indicated:

	<b>Banistmo and Subsidiaries</b>				
	<b>As of June 30,</b>		<b>As of December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(Amounts in US\$ millions)</i>				
<b>Liquid Assets</b>					
<b>High quality assets</b>					
Available .....	387.9	483.4	438.2	449.3	526.6
High quality securities .....	186.5	67.4	106.4	136.1	36.7
<b>Other liquid assets</b>					
Other securities .....	350.0	422.0	410.5	517.6	494.1
<b>Total liquid assets</b> .....	<b>924.4</b>	<b>972.8</b>	<b>955.1</b>	<b>1,103.0</b>	<b>1,057.5</b>

## Interest Rate Risk

A key component of our risk management strategy is the management of interest rate risk. Interest rate risk stems from the sensitivity of our results to fluctuations in interest rates. Interest rate sensitivity arises in our normal course of business, as the repricing characteristics of our interest-earning assets do not necessarily match those of our interest-bearing deposits and other borrowings. For further discussion of the interest rate risk we face, see “*Selected Statistical Information—Interest Rate Sensitivity of Assets and Liabilities*” and “*Risk Factors—Risks Relating to Banistmo—We face interest rate risk that is caused by the mismatch in maturities of interest-earning assets and interest-bearing liabilities.*”

The principal objective of our interest rate risk management activities is to enhance profitability by limiting the effect of adverse interest rate movements and increase interest income. To do this we carefully manage our variable interest-rate exposure through tracking the sensitivity of our assets and liabilities to variations in interest rates and quantifying the risk of our exposure to certain interest rate changes.

The approval, follow-up and control of the methodologies, policies, guidelines and strategies for managing interest rate risks are carried out by the Risk Management Committee and the Assets, Liabilities and Capital Management Committee. We control and analyze interest rate risk in order to mitigate impacts of adverse movements in interest rates in the market. To mitigate this risk, we use models such as the interest rate gap and sensitivities to hypothetical changes in market rates. The analysis seeks to evaluate our exposure in order to address and manage any risks in a timely fashion.

## Market Risk

Market risk is the risk that the value of a financial asset owned by the Bank is reduced as a result of changes in interest rates, foreign currency exchange rates, stock prices and other financial variables, as well as the reaction of market participants to political and economic events that expose the Bank to latent losses and potential gains. The objective of market risk management is to manage and control market risk exposures, within acceptable parameters, while optimizing the return on risk.

We assess market risk periodically using the measurements of VaR (Value at Risk), PVBP (price value of a basis point, which describes how a change of one basis point in the rate of interest affects the market value of an instrument), and sensitivity to the net interest income.

In the Bank, market risks are identified, measured, monitored, controlled and communicated to make timely decisions for their appropriate mitigation and to obtain risk-return profiles in accordance with the entity's policies, maintaining expected losses at tolerable levels. The Bank may use hedging derivatives, as well as

adjustments to the loan portfolio in order to mitigate the interest rate risk. The guidelines, policies and methodologies for market risk management are approved by our Board of Directors.

We also carry out measurements of extreme scenarios or stress tests that allow us to estimate potential losses that do not occur very frequently, but which are still possible based on past events and more extreme hypothetical simulations.

## Foreign Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate as a result of variations of foreign currency exchange rates and other financial variables, as well as the reaction of market participants to political and economic events.

In order to manage exchange rate risk, we use forward foreign currency contracts negotiated by our treasury department, which is responsible for managing the net position in foreign currency for the different currencies approved by the Bank. Maximum limits are also defined daily for such positions.

The table below sets forth the balance of our assets and liabilities denominated in foreign currency as of June 30, 2016 and June 30, 2017.

	Balances of assets and liabilities denominated in foreign currency									
	2017					2016				
	<i>(Amounts in US\$ millions)</i>									
	Costa Rican Colon	Mexican Peso	Euros	Other Currency	Total	Costa Rican Colon	Mexican Peso	Euros	Other Currency	Total
Cash and deposits in financial institutions.....	0.8	0.0	32.5	10.4	43.7	38.0	0.0	29.4	4.9	72.3
Securities at fair value through profit or loss.....	0.0	0.0	0.0	0.0	0.0-	6.9	0.0	0.0	0.0	6.9
Securities available for sale.....	0.0	1.1	0.0	0.0	1.1	0.0	0.0	2.0	0.0	2.0
Accrued interest receivable.....	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.7
Customers' liabilities under acceptances.....	0.0	0.0	0.2	0.0	0.2	0.0-	0.0	0.6	1.4	2.0
<b>Total assets</b> .....	<b>0.8</b>	<b>1.1</b>	<b>32.7</b>	<b>10.4</b>	<b>45.0</b>	<b>45.6</b>	<b>0.0</b>	<b>32.1</b>	<b>6.3</b>	<b>84.0</b>
Deposits received.....	0.0	0.0	32.6	8.7	41.3	0.0	0.0	30.3	0.0	35.0
Loans from other institution.....	11.9	0.0	0.0	0.0	11.9	0.0	0.0	0.0	0.0	0.0
Borrowing.....	0.0	0.7	0.0	0.0	0.7	0.0	0.0	0.6	1.4	2.0
Outstanding acceptances.....	0.0	0.0	0.2	0.0	0.2	0.0	0.0	30.9	6.1	37.0
<b>Total Liabilities</b> .....	<b>11.9</b>	<b>0.7</b>	<b>32.9</b>	<b>8.7</b>	<b>54.2</b>	<b>0.0</b>	<b>0.0</b>			
<b>Net position in the consolidated financial statement</b> .....	<b>(11.1)</b>	<b>0.4</b>	<b>(.02)</b>	<b>1.7</b>	<b>(9.1)</b>	<b>45.6</b>	<b>0.0</b>	<b>1.2</b>	<b>0.2</b>	<b>47.0</b>

The table below shows the balance of our assets and liabilities denominated in foreign currency as of December 31, 2016, December 31, 2015 and December 31, 2014.

	Balances of assets and liabilities denominated in foreign currency													
	2016				2015				2014					
	<i>(Amounts in US\$ millions)</i>													
	Costa Rican Colon	Mexican Peso	Euro	Other Currency	Total	Costa Rican Colon	Mexican Peso	Euro	Other Currency	Total	Costa Rican Colon	Mexican Peso	Other Currency	Total
Cash and deposits in financial institutions.....	9.3	0.0	33.6	7.4	50.3	29.8	1.0	35.9	7.1	73.8	8.3	0.7	43.0	52.0
Securities at fair value through profit or loss.....	2.7	57.3	0.0	0.0	60.1	5.4	112.1	0.0	0.0	117.5	0.0	172.9	0.0	172.9
Securities available for sale.....	0.0	0.0	2.3	0.0	2.3	0.0	0.0	2.0	0.0	2.0	0.0	0.0	2.0	2.0
Accrued interest receivable.....	0.5	0.0	0.0	0.0	0.5	0.7	0.0	0.0	0.0	0.7	0.1	0.0	0.0	0.1
Customers' liabilities under acceptances.....	0.0	0.0	0.2	0.9	1.1	0.0	0.0	1.5	5.5	7.0	0.0	0.0	3.0	3.0
<b>Total assets</b> .....	<b>12.6</b>	<b>57.0</b>	<b>36.1</b>	<b>8.3</b>	<b>114.3</b>	<b>35.9</b>	<b>113.1</b>	<b>39.4</b>	<b>12.5</b>	<b>200.9</b>	<b>8.4</b>	<b>173.6</b>	<b>48.0</b>	<b>230.0</b>
Deposits received.....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accrued interest payable ...	6.4	0.0	36.1	6.7	49.1	1.9	0.0	35.9	6.4	44.2	8.9	0.0	43.5	52.4
Outstanding acceptances ...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding acceptances ...	0.0	0.0	0.2	0.9	1.1	0.0	0.0	1.5	5.5	7.0	0.0	0.0	3.0	3.0
<b>Total liabilities</b> .....	<b>6.4</b>	<b>0.0</b>	<b>36.3</b>	<b>7.5</b>	<b>50.2</b>	<b>2.0</b>	<b>0.0</b>	<b>37.4</b>	<b>11.9</b>	<b>51.2</b>	<b>8.9</b>	<b>0.0</b>	<b>46.6</b>	<b>55.5</b>
<b>Net position in the consolidated financial statement</b> .....	<b>6.1</b>	<b>57.0</b>	<b>(0.2)</b>	<b>0.7</b>	<b>64.0</b>	<b>33.9</b>	<b>113.1</b>	<b>2.0</b>	<b>0.7</b>	<b>149.7</b>	<b>(0.5)</b>	<b>173.6</b>	<b>1.4</b>	<b>174.5</b>

## **Currency Credit Risk**

Currency credit risk is the risk of suffering financial losses as a result of the default in payment of our debt obligations denominated in foreign currency due to our inability to generate sufficient cash flows in foreign currency. Currently, the configuration of our portfolio provides low levels of exposure to this type of risk because the vast majority of our debt is denominated in U.S. dollars.

## **Operational Risk**

Operational risk is the possibility of incurring losses due to deficiencies, failures or inadequacies of human resources, processes, technology, infrastructure or the occurrence of external events, including the legal and reputational risks associated with such factors. Within this definition, information technology is established as a risk factor or category, which by its nature must be managed in a specialized way. Our operational risk framework is based on the implementation of policies (assumption, acceptance, mitigation or avoidance of risk), methodologies, strategies, risk evaluation process, and risk control analysis.

We rely on the development of strategies for the management and implementation of policies, methodologies and tools for administration, with each of these elements designed to support the Bank in the development of its strategic plans, providing risk analysis and routing decisions to manage our operational risk. Additionally, operational risk defines a tolerance limit to monitoring that operating losses are within the acceptable level approved by our Board of Directors. Heads of each business line and functional area are responsible for designing and implementing controls to mitigate operational risk, and for monitoring and demonstrating the effectiveness of controls that are in place.

The framework for operational risk management includes the following responsibilities:

- assigning responsibility at all levels and under a model of three lines of defense for operational risk management, where the first line of defense is the operational and business unit, the second line of defense includes risk, compliance, finance, senior management and the Board of Directors, and the third line of defense is the internal audit unit, and maintaining an appropriate internal control environment under the supervision of a formal governance structure;
- identifying, measuring and assessing operational risks and controls in sub-processes, products, channels, technology components, suppliers and particular cases of business lines through operational risk assessments;
- scaling operational events (*e.g.*, potential losses, quasi losses), identifying and reporting incidents and reporting aggregate operating losses; and
- continuous monitoring of operational risk indicators established by lines of business and support functions for major risks within the tolerance limits established by our management.

To guarantee the continuity of operations during significant business disruptions related to personnel, operations, infrastructure and technology, we have a business continuity plan. Our business continuity plan includes a business impact analysis document, a communications strategy, business continuity coordinators located in key areas with predetermined roles and responsibilities, annual test schedules of such continuity plan and systematic reviews in order to sustain this goal. We seek to ensure participation by management from all relevant areas in designing, updating, implementing and testing of recovery strategies, in each case taking into account risks to the business, business impact analysis, resource requirements and effective communication.

## **Bank Policies and Procedures**

Our risk management is implemented through policies, procedures and methodologies developed for different products and business segments as approved by the Board of Directors and in compliance with applicable

laws. The policies are designed to limit credit exposure, define lending limits, evaluate guarantees, determine appropriate levels of provisions and set adequate monitoring and portfolio recovery guidelines.

Our risk management policies are summarized below:

*Policy on credit exposure limits:* This policy contains guidelines, based on Accord No. 7-2014 of the Superintendency of Banks, regarding the establishment of limits and levels of credit exposure by customer or group.

*Lending policy:* This policy defines the parameters for lending limits to specific customers based on their repayment capacities.

*Allocations:* This policy sets forth allocation limits approved by our Board of Directors based on recommendations by the Risk Management Committee.

*Guarantees:* This policy sets guidelines for evaluating the strength of guarantees provided to back credit extensions with the goal of mitigating the risk associated with default.

*Provision:* This policy is based on adherence to requirements established by laws and regulations, and also sets forth our guidelines for making provisions in excess of legal requirements based on our own determination of specific customers' creditworthiness.

*Monitoring:* This policy sets forth the various processes for tracking information with the objective of monitoring the evolution of credit risk in an adequate and timely manner. These processes require a continuous mechanism of classification and reassessment of credit operations and consistency with the policies implemented by our lending operations and also include internal meetings among commercial managers and members of our risk teams.

*Portfolio recovery:* Through this policy we attempt to minimize the impacts of defaults on payments or products. Additionally, the established guidelines in this policy define the aspects and activities that determine collection management and make possible the retrieval of information to complete the necessary estimates with regard to the models for monitoring and estimating losses. See "*Retail & SMEs Banking Division Past-Due Loans Recovery Policy*" and "*Corporate & Government Banking Division Past-Due Loans Recovery Policy*."

#### *Credit Approval and Risk Policy*

We have different approval processes designed for our Corporate & Government and Retail & SMEs banking customers, which are specific to each segment and product type.

Corporate & Government banking: Institutional and commercial or corporate credit requests are evaluated individually for creditworthiness, loan structure and risk mitigants for each particular customer. The approval process we apply includes a mix of certain of our employees that possess credit approval authority and credit committees.

Financial and qualitative information about the customer is used as the basis on which the terms and conditions for providing credit and disbursement of operations are established. In this process, the grade of risk resulting from the customer or economic group of which it is a part is determined.

The approval process begins with due diligence and a credit check for the corporation and its controlling shareholders, if applicable. Our credit officers will generally schedule a visit to the potential customer's facilities and also review their financial statements and other corporate information. The relationship officer then assembles a credit package to present for approval to the appropriate authority.

Approval of all credit facilities that reach committee level are recorded in the minutes of the corresponding meeting. A large volume of the credit facilities are documented internally, through standard loan documentation models established by us for such purposes. More complex or specialized facilities, such as structured loans or

construction loans, are sent to outside legal counsel for document preparation (loan, mortgage, and guarantees contracts, among other ancillary documents). Upon completion of the required documentation, registration of the contract, and mortgages in the public register in the case of facilities secured by a mortgage, and confirmation that the client complies with all terms and conditions, the operations department proceeds to disburse or establish the credit facility.

Retail & SMEs banking: The approval process is based on predetermined factors informed by particular risk profiles established in our credit policies. Such factors include, among others, repayment capacity, monthly income, employment status and repayment method. Relevant factors that we consider in making approvals vary depending on the type of product:

- *Credit cards*: We generally evaluate the employment stability of the prospective customer, income levels and credit reports.
- *Personal loans*: We authorize personal loans by assessing the employment status of the candidate as well as his or her capacity to repay the loan. We also require life insurance that will cover the loan amount. Authorized loan amounts range from US\$1,000 to US\$85,000, with terms of up to 25 years. Personal loans may be paid from a deduction of payroll or a specific charge to the customer's account.
- *Vehicle loans*: In addition to evaluating the employment stability of the prospective customer, we also assess the type of vehicle being financed and require a first priority security on the vehicle. Terms on vehicle loans are of up to five years, with a variable interest rate. For all of our vehicle loan customers, we check credit information on the Credit Bureau.
- *Residential mortgage loans*: In addition to evaluating the employment stability of the prospective customer, we assess the property being financed. We may finance up to 95% of the property, and require a first mortgage security, which might be in addition to other security interests that we may require from the borrower. We also require insurance policies to cover for the property and the borrower. Financing terms are up to 30 years, with a variable interest rate.

Loans in excess of US\$15 million must be approved by our Credit Committee, whereas loans below such threshold may be authorized by credit managers in different positions, according to segment and line of business (Corporate & Government and Retail & SMEs).

#### *Loans to related parties*

In accordance with Article 96 of the Banking Law, we may not (i) grant unsecured loans or unsecured credits to any of our employees in an amount greater than the salaries, wages and other annual emoluments for each employee, (ii) grant loans or credits to our managers, officers and employees, or any person or legal entity that owns 5% of our stock, or to anyone who forms an economic group with these persons, in terms and conditions of cost and maturity more favorable than those that are usual in the market for that particular type of operation, (iii) directly or indirectly grant unsecured credit that exceeds 5% of our capital funds, or loans secured with real collateral other than deposits that exceed 10% of our capital funds, in favor of (A) one or more directors or any person or legal entity that, directly or indirectly, jointly or severally, owns 5% or more of our stock; (B) any legal entity in which one or more of our directors is a director or officer, or is a guarantor of the loan or credit granted to such legal entity; (C) any legal entity or association of persons, in which we or one or more of the our directors or officers owns, individually or jointly, either a significant interest, a preponderant influence or more than 20% of the entity; or (D) our managers, officers, employees and their spouses, except residential mortgages for principal living quarters or secured personal loans granted under personnel benefit plans. The aggregate amount of unsecured loans and loans secured with real collateral, other than deposits granted by the Bank and other firms that make up our banking group, to the related parties mentioned above may not in any case exceed the percentage of capital funds established periodically by the Superintendency of Banks, which may not in any case exceed 25% of our capital funds.

Loans to related parties are approved by the Credit Committee.

### ***Loan-loss Reserves***

Loan portfolio reserves at Banistmo and its subsidiaries are based on the requirements set forth by IFRS, particularly IAS 39 – Financial Instruments Recognition and Measurement, which establishes the methodologies to determine delinquency and likelihood of recovery of losses. These models serve to determine allowance according to the level of risk in each of the loan portfolios, corresponding to collective or individual evaluations. These methodologies serve to (i) determine the deterioration of the loan portfolio and of the finance lease operations and (ii) set adequate levels of reserves. Provisions related to the loan portfolio are assigned based on an estimate of the incurred loss that could occur during the estimated period.

We use a collective methodology to assess our Corporate & Government and Retail & SMEs portfolios. If the portfolio with respect to a client within the Corporate & Government unit is impaired, we then apply the individual methodology with respect to such portfolio.

#### *Collective Methodology*

This methodology, when used to estimate our Retail & SMEs loans portfolio reserves, includes products such as personal loans, credit cards, vehicles, overdrafts and loans granted by our subsidiary, Financomer S.A.

The provision is calculated as the proportion of the balance with a likelihood of being 180 days past due in the following 12 months, and then adjusted according to the final rate of losses after customers reach default (180 days past-due).

$$\text{Provision} = \text{Stated Balance} \times \text{Net Roll Rate (\%)} \times [(1 - \text{Recovery Rate})(\%)]$$

The methodology is based on estimating net roll rates between the different ranges of default until reaching default. The estimation includes the prior 12 months of performance history.

Different levels of rolling rates are determined for each type of product, according to the range of delinquency of the financial period. The ranges of delinquency are defined as: 0, 1-29, 30-59, 60-89, 90-119, 120-149 and 150-179 days.

The recovery rate is estimated as equivalent to the balance recovered following entry into default. This takes into consideration loan recovery during the last 12 months for each of the aforementioned products.

Taking into consideration collateral coverage and terms of financing, in the case of mortgage portfolios for loans delinquent between 0 and 90 days, the provision is estimated to be equivalent to the net loss, with a 10-year observation window.

For our Corporate & Government loan portfolio that is not found to be impaired, the provision is estimated based on parameters of historical loss according to economic activity performed by the customer.

#### *Individual Methodology*

Provisions for our Corporate & Government impaired portfolios are estimated individually.

This methodology consists of (i) estimating the value of contractual cash flows expected to be recovered, including the values estimated to be recovered through collateral, and (ii) comparing such value to the book value of the debt. This is determined based on a percentage of recovery calculated either individually or collectively, depending on the type of product.

The loss percentage is applied directly on the present value obtained by the projections. This method establishes the value which cannot be recovered from the credit. The provision is the difference between total credit exposure and the value that is determined to be recoverable.

Backtesting on these provision models is done annually in order to maintain a satisfactory level of coverage according to the Bank's risk profile.

The following table sets forth the loans and operations which were found to be impaired, as of June 30, 2017 and June 30, 2016, according to each methodology.

	June 30, 2017				June 30, 2016			
	<i>Amounts in US\$ millions</i>							
	Individual Methodology		Collective methodology		Individual Methodology		Collective methodology	
	Portfolio balance	Provision	Portfolio balance	Provision	Portfolio balance	Provision	Portfolio balance	Provision
<b>Corporate &amp; Government</b> .....	<b>195.8</b>	<b>54.2</b>	<b>3,230.7</b>	<b>15.3</b>	<b>296.8</b>	<b>28.7</b>	<b>2,991.8</b>	<b>13.8</b>
<b>Retail &amp; SMEs</b> .....	<b>86.6</b>	<b>17.3</b>	<b>4,018.3</b>	<b>54.6</b>	<b>58.8</b>	<b>7.6</b>	<b>3,747.4</b>	<b>38.9</b>
SMEs .....	34.7	5.9	477.0	3.6	16.0	3.8	394.1	2.9
Personal Loans .....	0.0	0.0	653.0	23.9	0.0	0.0	639.7	18.1
Financomer .....	0.0	0.0	123.8	5.1	0.0	0.0	112.2	2.8
Vehicles .....	0.0	0.0	142.6	3.1	0.0	0.0	177.5	2.7
Credit cards .....	0.0	0.0	240.6	14.2	0.0	0.0	208.9	11.6
Other products .....	2.9	2.0	243.3	1.0	2.9	2.0	229.7	0.2
Residential								
Mortgages .....	49.0	9.4	2,138.0	3.7	39.9	3.8	1,985.3	0.6
<b>Total</b> .....	<b>282.5</b>	<b>71.5</b>	<b>7,249.0</b>	<b>69.9</b>	<b>355.6</b>	<b>38.3</b>	<b>6,739.2</b>	<b>52.7</b>

The following table sets forth the loans that were found to be impaired, as of December 31, 2016, according to each methodology.

	December 31, 2016			
	<i>Amounts in US\$ millions</i>			
	Individual Methodology		Collective Methodology	
	Portfolio balance	Provision	Portfolio balance	Provision
<b>Corporate &amp; Government</b> .....	<b>341.3</b>	<b>52.2</b>	<b>2,857.6</b>	<b>13.5</b>
<b>Retail &amp; SMEs</b> .....	<b>179.3</b>	<b>9.9</b>	<b>3,887.7</b>	<b>46.5</b>
SMEs .....	130.3	3.1	375.1	5.0
Personal Loans .....	0.0	0.0	762.8	17.6
Financomer .....	0.0	0.0	117.4	3.6
Vehicles .....	0.0	0.0	160.8	3.0
Credit cards .....	0.0	0.0	239.3	15.6
Other products .....	2.5	1.2	139.1	1.1
Residential Mortgages .....	46.5	5.6	2,093.2	0.7
<b>Total</b> .....	<b>520.6</b>	<b>62.1</b>	<b>6,745.4</b>	<b>60.0</b>

### Retail & SMEs Banking Division Past-Due Loans Recovery Policy

Different teams within our Retail & SMEs banking division combine their efforts to enhance our past-due loans recovery policy for our Retail & SMEs banking business. This includes the credit and risk teams that establish the credit guidelines, the product teams that conduct periodic customer follow-ups and the collection department.

#### *Collection Department and Third-Party Collection Agencies*

Our Collection Department performs the internal collection of Retail & SMEs business banking loans. The collection strategies are focused on preventive, early and advanced delinquencies through different technological

and operational tools and monitoring reports. Third-party collection agencies are used for special collection campaigns and the collection of written-off loans.

According to each strategy received from the Credit and Risk Department, collection is developed through different channels, including virtual, phone collection, legal processes and third-party collection agencies.

Collection efforts begin with a virtual preventive strategy for current loans in order to remind our customers of the next payment date. Once the loan is on the first day of default, it is managed through our Dialer system using an internal collection call center, which is in charge of performing an intensive negotiation management using phone calls. Virtual channels are also used to strengthen internal collection from the first day of default. Such efforts are undergone while the loan is less than 120 days past due. When the loan is 120 days past due, the account is transferred to a more experienced debt collection agent, which uses different tools, such as TekRecovery (an automated telephone dialing system) in order to reduce the amount of written-off accounts. Additional special campaigns discussed with the Credit and Risk Department are managed to support the operation.

Once an account is written off (180 or 185 days past due), collection is managed by third-party collection agencies.

#### *Legal Department*

Our Legal Department manages legal processes associated with delinquent loans. It also works hand in hand with the Collection Department in order to analyze customer alternative solutions, such as cash payments, restructuring and refinancing. The objective of this dual approach is to reduce costs and expenses for the customer (e.g., attorney fees, time, etc.), as well as for the Bank (legal fees, maintenance costs, foreclosed properties costs, etc.).

### **Corporate & Government Banking Division Past-Due Loans Recovery Policy**

#### *Administrative Collection and Third-Party Collection*

In the Corporate & Government banking division, account managers are responsible for managing customer defaults. If a customer is in default for more than 90 days, an evaluation will be made in order to assess whether the credit will be transferred to a Special Credit Unit to manage collection.

Early collection efforts begin on the first day of default or when there are indications that the client will have difficulties in making scheduled payments. Each account manager is responsible for the administration of his or her portfolio, throughout its credit cycle from origination until full recovery. However, the Special Credit Unit is responsible for monitoring the performance of loans, and as soon as a loan is past-due, it follows up with the account manager on a weekly basis. During this period, the Special Credit Unit may propose action plans.

#### *Legal Department*

If it is not possible to recover amounts owed to the Bank through the foregoing methods, the Bank analyzes whether there is a possibility of recovery through judicial procedures. If a customer is in default for more than 150 days, the judicial collection process can be commenced. Once foreclosure is effected, the Bank is allowed to adjudicate such asset or to sell it and receive the sales proceeds.

### **Anti-Money Laundering and Anti-Terrorism Financing Policy**

The Bank has adopted and implemented an Anti-Money Laundering and Financing of Terrorism Risk Management system, which complies with applicable Panamanian law, Grupo Bancolombia's policies and the recommendations and international best practices published by the Financial Action Task Force ("FATF") on Money Laundering.

The FATF is a multilateral organization composed of more than 35 member jurisdictions. Its objectives are to promote legal, regulatory and operational standards for fighting money laundering, financing of terrorism, and proliferation of weapons of mass destruction. The FATF develops a series of recommendations recognized as the international standards, and monitors the progress of its members in the implementation of these standards. Panama is a member of the FATF of Latin America (*Grupo de Acción Financiera de Latinoamérica*).

Our policies, controls and procedures are guidelines that encourage due diligence by our employees in order to prevent the use of our services or products for criminal purposes. Such guidelines include, among others, (i) the prohibition to enter into transactions with clients whose revenues are derived from high-risk countries as determined by the FATF or blocked countries by OFAC, (ii) the prohibition on establishing business relationships with shell banks, firearm trafficking businesses and precious metals commercialization businesses, (iii) the requirement to identify shareholders that hold a 10% equity stake in a prospective client and (iv) the review of international lists related to money laundering and financing of terrorism activities, such as OFAC, UN and Interpol, among others. When there is a risk of suspicious activity, a report is issued and filed with the relevant Panamanian authorities.

As part of these efforts, and as a result of regulatory changes, we recently made a number of changes and enhancements to our policies and procedures. In addition to approving a new risk assessment methodology, these changes included, among others:

- Changes to the participants and list of topics of our Anti-Money Laundering Committee;
- Changes to our Anti-Money Laundering Manual to better align with regulatory developments;
- Redesign of Know Your Customer policies;
- Redesign of the Preventive Assets Freezing procedure (UN list);
- Updates to our Suspicious Activity Report procedures;
- Improvements in the identification process for politically exposed persons;
- Improvements in the customer onboarding process;
- Creation of new monitoring scenarios;
- Update to the Training Program for new joiners, and existing employees; and
- External evaluation of our anti-money laundering compliance regime.

Our Compliance Manual and Code of Ethics set forth our procedures and rules of conduct.

#### *Know Your Customer Policies*

The Bank's KYC policies aim to ensure that all customers are appropriately screened, and that their financial profile can be established through evidence of sources of income. Depending on their risk profile, customers may be subject to stricter KYC processes. As part of the due diligence process, we periodically review international lists published by OFAC, UN and Interpol, among others, in order to confirm that prospective or current customers are not listed therein. If we conclude that one of our current customers is included on such a list, we perform a thorough analysis of our relationship with the client, report the relationship to the relevant authorities and may eventually terminate our relationship with the client.

Customer information is monitored through a comparative analysis within the segment to which the customer belongs. Information must be updated periodically.

### *Monitoring System*

The Bank monitors the transactional behaviors of customers, the products offered to each customer, and the channels and jurisdictions where each customer operates in order to identify issues that can either be disregarded or lead to the discovery of suspicious activity. Customers with an elevated risk profile are subject to a more thorough monitoring, consisting of an analysis that considers both quantitative and qualitative data of the customer.

### *Personnel Training*

Because our employees are key players in our fight against money laundering and the financing of terrorism, we conduct periodic training sessions, both upon the commencement of employment and annually. In addition, employees that are more exposed to customer relationships receive more specialized training.

### *Compliance Officer*

The Board of Directors has designated a Compliance Officer, who reports directly to the Money-Laundering Prevention Committee. The Compliance Officer has access to a team of employees that report to him and to technological tools, such as Monitor Plus/Safewatch and Monitor SPSS Modeler – IBM software tools, which allow him to perform his functions.

### *Anti-Money Laundering Monitoring Tools*

We employ “Safewatch,” a real-time screening process that validates SWIFT messages, both sent and received, across the system. With respect to international transfers, the message is scanned and validates the entire structure of the message (sender, beneficiary, country of origin and beneficiary address). We also benefit from “Monitor Plus,” a tool that helps us monitor suspicious transactions through the combination of different technologies, and from SPSS Modeler from IBM.

### *Audit and Control*

We conduct periodic evaluations of our Compliance System in which we generate recommendations that are submitted to the Audit Committee and the Board of Directors in compliance with regulations and international best practices.

We also conduct specific evaluations of customers whenever we are made aware of corruption or anti-money laundering issues that affect them. For example, we recently conducted an internal audit with respect to our relationship with the Odebrecht group and affiliated entities, tracking transactions from the year 2009 to 2017. The results of such audit showed that we had no credit exposure to the group as we did not extend loans to its controlled entities, although Odebrecht did have accounts opened in the names of several entities it controlled, which accounts were closed as a result of our audit.

## MANAGEMENT

### Board of Directors

Our Board of Directors is currently comprised of eight members. Five of the eight members of the Board of Directors were elected at the Bank's shareholders' meeting that took place on October 28, 2013. Maria Cristina Arrastia Uribe was elected at the shareholders' meeting on October 22, 2015, Ricardo Mauricio Rosillo Rojas was elected at the shareholders' meeting on March 31, 2016 and José Humberto Acosta was elected at the shareholders' meeting on October 8, 2016. The current Board of Directors is comprised of a Chairman of the Board and seven directors, all of whom have between 25 and 30 years of experience in banking and financial activities. Members of the Board of Directors are elected for two-year terms, but remain in their roles until a replacement is elected. Members of the Board of Directors can be reelected to their positions for successive periods.

Our Board of Directors typically meets at least once a month. Pursuant to regulatory requirements, the Board of Directors must meet at least on a quarterly basis. Our Board of Directors is in charge of, among other matters, approving and reviewing material projects, managing risk and maintaining related policies, supervising the development of new products and services, strategic planning and implementation of company strategies and maintaining awareness of material financial projections. Our Board of Directors is the highest body within our administration. The Board of Directors must execute and implement any resolutions adopted at shareholders' meetings and is authorized to execute any other act related to our ordinary course of business.

The shareholders elect directors taking into account a selection criteria, which includes eligibility requirements established by law and by our Code of Corporate Governance. The selection criteria includes:

- The academic and professional background of the candidate, and whether such background qualifies the candidate to guide the Bank.
- Specific skills related to particular aspects of the business, including knowledge of legal, risk, commercial or financial matters.
- Availability to assume the responsibilities required of a member of the Board of Directors.
- Absence of any legal prohibitions or impediments.

A majority of the members of the Board of Directors constitutes a quorum. Decisions may be made by a majority of the members present at the meeting.

Two of our eight directors are independent pursuant to the rules of the Superintendency of Banks. Three of the directors are based in Panama and five are based in Colombia, and all of them possess technical and entrepreneurial experience. Five of the directors are part of the senior management of Grupo Bancolombia, enabling us to maintain the balance necessary between the global vision of Grupo Bancolombia and its implementation in the local context.

The following table sets forth the composition of our Board of Directors as of the date of this offering memorandum:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Jaime Alberto Velásquez Botero.....	57	Chairman
José Humberto Acosta Martin .....	55	Vice Chairman
Gonzalo de Jesús Toro Bridge .....	57	Director – Treasurer
María Cristina Arrastia Uribe .....	52	Director – Secretary
Ricardo Mauricio Rosillo Rojas .....	48	Director
Jaime Eduardo Alemán Healy .....	64	Director
Michael Bettsack .....	76	Director (Independent)
Felipe Chapman .....	50	Director (Independent)

**Jaime Alberto Velásquez Botero – Chairman**

Mr. Velásquez has been a member of our Board of Directors since 2007 and has served as Chairman since February 2014. He has served as Vice President of Strategies and Finance of Bancolombia since 2012, and served as Vice President of Finance of Bancolombia from 1997 to 2012. Prior to 1997 he served as Director of the Economic Department and Director of Investors Relations of Bancolombia. From 1987 to 1989, he worked at CI Banacol. Mr. Velásquez holds a degree in Economics from Universidad de Antioquia, in Medellín.

**José Humberto Acosta Martín – Vice Chairman**

Mr. Acosta has been a member and Vice Chairman of our Board of Directors since October 8, 2016. He has served as Vice President of Finance of Bancolombia since 2011, and previously served as Director of International Banking of Bancolombia from 2005 to 2011. He holds a degree in Business Administration from the Externado University of Colombia and a master's degree in Business Administration from INALDE in Colombia. He was a professor at the University of Rosario in the postgraduate course of Project Evaluation and a professor of Finance of the Universidad Sergio Arboleda.

**Gonzalo Toro Bridge – Director**

Mr. Toro has served as a director since 2007. He currently serves as Vice President of Corporate Banking of Bancolombia. Before that, he worked for 15 years in Grupo Bancolombia, where he served as Vice President for the International Banking division of Bancolombia and Treasurer of Bancolombia Panamá, among other positions. Mr. Toro has served as a director of Todo 1 Colombia, Todo 1 Internacional and Sinesa Holding Panama. He holds a degree in business administration from Universidad EAFIT and a diploma in international banking management from the University of Pennsylvania.

**María Cristina Arrastía Uribe – Secretary**

Mrs. Arrastía has served as a member of our Board of Directors since 2016. She has served as Vice President of the Retail & SMEs division of Bancolombia since 2015. Before that, she served as Bancolombia's Vice President of Real Estate, Housing and Specialized Consumption, among other positions at Bancolombia. She currently serves as director of Mastercard LATAM and Titularizadora Colombiana. Mrs. Arrastía has also served as director of Redeban Multicolor, Fiduciaria Bancolombia, Mutuo Colombia, Factoring Bancolombia, Leasing Bancolombia, Almacén, and Multienlace. She holds a degree in business administration from Universidad EAFIT and a diploma in strategic management from Universidad de los Andes.

**Ricardo Mauricio Rosillo Rojas – Director**

Mr. Rosillo has served as a director since 2016. He has served as General Counsel and Chief Legal Officer of Bancolombia since 2008. Before that, he served as President of Autorregulador del Mercado de Valores (*Colombian Self-regulatory Organization*), Supervisor of the Securities Market of the Colombian Stock Exchange, Director of Financial Regulation of the Colombian Ministry of Finance, among other positions. Mr. Rosillo has also served as director of La Previsora Compañía de Seguros, Leasing Bancoldex, BCH, Fiduestado, Valores Bancolombia, Tuya, Banca de Inversión Bancolombia, Fiduciaria Bancolombia, among others. He holds a law degree from Pontificia Universidad Javeriana, a graduate degree in financial law from Universidad de los Andes, and a master's in law with emphasis in Commercial and Economic Law from the University of Georgia.

**Jaime Eduardo Alemán Healy – Director**

Mr. Alemán has served as a director since 2014. He is a founding partner at the Panamanian law firm Alemán, Cordero, Galindo & Lee. Mr. Alemán served as Ambassador of Panama to the United States of America. He has also served as Minister of Justice and Government of Panama and as a legal advisor to the President of Panama, among other positions. Mr. Alemán has served as director of various financial entities. He holds a B.A. in Economics from the University of Notre Dame and a Juris Doctor from Duke University School of Law.

### **Michael Bettsack – Director (Independent)**

Mr. Bettsack has served as a member of our Board of Directors since 2014. He has held a position as advisor to the Ministry of Finance of Panama and various executive positions within entities outside the financial industry. Mr. Bettsack holds a bachelor's degree in Economics with a major in Banking from the University of Pennsylvania.

### **Felipe Chapman – Director (Independent)**

Mr. Chapman has served as a member of our Board of Directors since 2014. He serves as managing partner of INDESA, a Panamanian investment bank. Mr. Chapman currently serves as chairman to the boards of directors of INDESA Holdings and Optima Compañía de Seguros. He also serves as director of Félix B. Maduro, Holding Nacional de Inversiones, Latin Clear and Fundación Psoriasis de Panamá. He holds a degree in Economics from Brown University and a master's in business administration from INCAE Business School.

### **Executive Officers**

The following table sets forth the information concerning the principal officers of Banistmo as of the date of this offering memorandum:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>At Banistmo since</b>
Aimeé Sentmat de Grimaldo	47	Executive President	August 5, 2002
Diego Fernando Ponce	41	Vice President of Digital Transformation and Innovation	August 23, 2010
John Alejandro Rozo Uribe	51	Vice President of the Retail & SMEs Banking Division	September 1, 2010
Ezra Silvera	49	Vice President of the Corporate & Government Banking Division	November 22, 2010
María Cristina Vilá de Van Hoorde	44	Legal Vice President and General Counsel	November 12, 2013
Alejandro Toro Villa	38	Vice President of Corporate Services	July 18, 2016
Juan Gonzalo Sierra Ortiz	40	Vice President of Strategy and Finance	October 28, 2013
Jorge Andres Botero Soto	45	Vice President of Risk Management	February 13, 2017
Juan Carlos Arias Osorio	52	Vice President of Internal Audit	October 28, 2013
Joycelyn García	48	Vice President of Communications and Development of Human Banking	October 16, 1997
Jorge Eduardo Mujica Ospina	44	Head of Broker Dealer	October 10, 2016
Alejandro Vélez Mantilla	46	Director of Human Resources	August 23, 2017

### **Aimeé Sentmat de Grimaldo – Executive President**

Mrs. Sentmat de Grimaldo has served as our Executive President since 2013. Before that she held different positions in the banking industry, including Director of Commercial Banking of HSBC Bank (Panamá) from 2002 to 2013 and Vice President of Commercial Banking of Banco Latinoamericano de Exportaciones from 1997 to 2002. She holds a degree in finance from Universidad Católica Santa María la Antigua and a master's in business administration from Nova Southeastern University.

### **Diego Fernando Ponce – Vice President of Digital Transformation and Innovation**

Mr. Ponce was appointed Vice President of Digital Transformation and Innovation in 2016. Before that he held various positions, including Vice President of Human Resources of HSBC Bank (Panamá) from 2013 to 2016, Vice President of Human Resources of Citibank Panamá from 2004 to 2010 and Vice President of Human Resources of Standard Chartered Bank in New York from 1999 to 2004. He holds a degree in finance and management from Florida International University and diplomas in Human Resources from the University of Michigan and the University of North Carolina.

### **John Alejandro Rozo Uribe – Vice President of the Retail & SMEs Banking Division**

Mr. Rozo has served as Vice President of the Retail & SMEs banking division since 2013. Before that he served as Director of Products and Segments and Director Distribution and Sales of HSBC Bank (Panamá) from 2010 to 2013. He also worked as Vice president of Retail Banking of Citibank Panamá. He holds a degree in law from Pontificia Universidad Javeriana and a masters in business administration from Saint Joseph's University in Philadelphia.

### **Ezra Silvera – Vice President of the Corporate & Government Banking Division**

Mr. Silvera has served as Vice President of the Corporate & Government banking division since 2014. Before that he served as Director of Multinational and Commercial banking for HSBC Bank (Panamá) from 2010 to 2013. Mr. Silvera also worked as Vice President of Corporate Banking and Regulatory Businesses of Citibank. He holds a degree in systems engineering from Universidad Metropolitana, a masters in business administration from IESA and a masters in finance from Boston College.

### **María Cristina Vilá de Van Hoorde – Legal Vice President and General Counsel**

Mrs. Vilá de Van Hoorde has served as Legal Vice President and General Counsel since 2013. Before that, she served as Legal & Compliance Vice President of Citibank N.A, and its subsidiaries from 2008 to 2013. Prior to that she served as in-house counsel in charge of the trusts, escrows and payment agency division of Banco Continental de Panamá, S.A. She also worked as attorney within the legal department of the Superintendency of Banks of Panamá and as an associate at the law firm Sucre, Arias & Reyes. She holds degrees in law and political science from Universidad Santa María la Antigua, a master's in law from the University of Texas and diplomas in finance and law from the New York Institute of Finance and Harvard University, respectively.

### **Alejandro Toro Villa – Vice President of Corporate Services**

Mr. Toro Villa has served as Vice President of Corporate Services since 2016. Before that, from 2002 to 2016, he held various positions in Bancolombia, such as Director of Distribution Strategy and Business Manager. Mr. Toro Villa holds a degree in Administrative Engineering from Universidad EIA (Colombia), a master's in International Business from Deakin University (Australia), a master's in business administration from Universidad de Monterrey (México) and a diploma in corporate finance from Universidad EIA (Colombia).

### **Juan Gonzalo Sierra Ortiz – Vice President of Strategy and Finance**

Mr. Sierra Ortiz has served as Vice President of Strategy and Finance since 2013. Before that, from 1998 to 2007, he held various positions within the Bancolombia Finance area. From 2008 to 2013, he served as Director of Financial Control of Banco Agrícola. He holds an accounting degree from Universidad EAFIT and a masters in business administration from Instituto Tecnológico y de Estudios Superiores de Monterrey (TEC).

### **Jorge Andres Botero Soto – Vice President of Risk Management**

Mr. Botero Soto has served as Vice President of Risk Management since February 2017. He served as Bancolombia's Investment Banking Managing Director – Principal Investments and Alternative Assets from June 2004 to January 2017, and since 2002 he has served as Senior Associate – Corporate Finance. He holds a master's degree in business administration from The Ohio State University - Fisher College of Business and a Certificate in Finance from Universidad Escuela de Administración y Finanzas y Tecnologías.

### **Juan Carlos Arias Osorio – Vice President of Internal Audit**

Mr. Arias Osorio has served as Vice President of Internal Audit since 2013. Before that, from 1992 to 2013, he held various positions within Bancolombia and its subsidiaries. He holds a degree in Systems Engineering, a graduate degree in finance and a master's degree in Business Administration, all from Universidad EAFIT.

### **Joycelyn García – Vice President of Communications and Development of Human Banking**

Mrs. García has served as Vice President of Communications and Development of Human Banking since 2016. Before that, from 2008 to 2013, she served as Assistant Vice President of Sales & Marketing of Personal Financial Services and Head of Marketing CMB. From 2013 to 2016 she served as Head of Communications and Corporate Sustainability in Banistmo. Mrs. García also held different positions related to journalism, education and business administration in different local and multinational companies in Panamá. She holds a B.S. in Professional Management with a business specialty from Nova Southeastern University, a diploma in journalism from Universidad de Panamá and has completed graduate studies in marketing from Universidad Santa María La Antigua.

### **Jorge Eduardo Mujica Ospina – Broker Dealer President**

Mr. Mujica Ospina has served as Head of Broker Dealer since October 2016. He served as Regional Head of Corporate, Government and SMEs for Valores Bancolombia from July 2010 to October 2016, and from December 2006 to July 2010 he served as Bancolombia's Interest Rate Trading Desk Chief. Between 2004 and 2006 he served as Senior Trader of Public Debt. He holds a bachelor's degree from Universidad de la Sabana.

### **Alejandro Vélez Mantilla – Director of Human Resources**

Mr. Vélez Mantilla has served as our Director of Human Resources since August 2017. He served with Bancolombia as Manager of International Development of Human Resources from September 2015 to August 2017, as Human Resources Manager from October 2008 to August 2015, and as Human Resources Analyst from April 1996 to October 2008. He holds a bachelor's degree in Business Administration degree from Universidad ICESI and a master's degree in Human Resources from OBS-Universidad de Barcelona.

## **Committees**

We strive to maintain a system of corporate governance that allows us to efficiently carry out our financial activities. Accordingly, our Board of Directors has created operations, management and control committees, as described below. Additionally, we have four management committees (Efficiency Committee, Projects Committee, Products Committee and Job Health Committee) that report directly to our President.

### ***Audit Committee***

The Audit Committee is comprised of three members of the Board of Directors (José Humberto Acosta, María Cristina Arrastía and Michael Bettsack), as well as an alternate member (Jaime Velásquez) who is also a member of the Board of Directors. The Audit Committee meets once every two months.

The Audit Committee is responsible for:

- Ensuring that internal control systems are based on policies and procedures that enable the Bank to meet its strategic objectives while complying with applicable laws and regulations;
- Approving, monitoring and evaluating the internal control structure of Banistmo and its subsidiaries in order to determine whether applicable procedures are designed to reasonably protect Banistmo's assets and those of third parties being administered by Banistmo;
- Assessing whether there are controls in place to verify that transactions are being properly authorized and registered in compliance with internal and external audit programs; and
- Verifying that corrective measures imposed as a result of internal audits are properly implemented.

### ***Anti-Money Laundering Committee***

The Anti-Money Laundering Committee is comprised of two members of the Board of Directors, the Executive President, the Vice President of Strategy and Finance, the Vice President of Corporate Services, the Legal Vice President and General Counsel, the Vice President of Risk Management, the Vice President of the Retail & SMEs banking division, the Vice President of the Corporate & Government banking division, the Vice President of Internal Audit, the Compliance Director of Grupo Bancolombia and the Compliance Director of Banistmo. This committee holds meetings twice a month.

The Anti-Money Laundering Committee supports the compliance strategy of the Bank, focusing on the implementation of measures aimed at preventing operations and/or transactions carried out with moneys derived from activities linked to money laundering and the finance of terrorism.

The Anti-Money Laundering Committee is responsible, among other things, for:

- Authorizing on an annual basis the planning of activities intended to prevent money laundering and monitoring implementation of such planning;
- Monitoring the internal assessment of unusual transactions and other activities performed by the Compliance Division; and
- Authorizing any update or modification to Banistmo's Anti-Money Laundering policies, the Anti-Money Laundering risk management methodologies and KYC policies.

### ***Risk Management Committee***

The Risk Management Committee is comprised of three members of the Board of Directors, the Vice President of Risk Management of Grupo Bancolombia, the Executive President and the Vice President of Risk Management of Banistmo. The Risk Management Committee meets monthly.

The Risk Management Committee is responsible for developing and implementing our strategy for risk management, following the guidance set forth by Grupo Bancolombia. This strategy includes the implementation of a comprehensive methodology for the identification and measurement of existing and potential risks for the Bank, focusing on assessing performance in comparison with industry standards. The strategy is aimed at establishing a clear framework for the desirable and acceptable risk profile of the Bank with respect to credit, market, operational and/or other risks which may impact our business strategy.

The Risk Management Committee is responsible, among other things, for:

- Assessing risk policies, methodologies and procedures prior to consideration and approval by the Board of Directors; and
- Supporting the Board of Directors in the approval and monitoring of the Bank's risk management systems.

### ***Credit Committee***

The Credit Committee is comprised of the Executive President, the Vice President of the Treasury of Grupo Bancolombia and an external member designated by the Board of Directors. The Credit Committee holds meetings weekly.

The Credit Committee is responsible for approving, recommending for approval or declining credit facilities in our Corporate & Government portfolio. The Credit Committee also conducts customer reviews in an objective manner based on the Bank's credit standards to approve or recommend customers at higher attribution

levels, provides guidelines to the business areas to improve the portfolio quality and designs strategies to mitigate identified risks.

#### ***Assets, Liabilities and Capital Management Committee***

The Assets, Liabilities and Investment Management Committee is comprised of the Executive President, the Vice President of Strategy and Finance and the Vice President of Risk Management. The Assets, Liabilities and Capital Management Committee meets once a month.

The Assets, Liabilities and Capital Management Committee is responsible for approving the Bank's policies regarding the management of its assets and liabilities, including its investment policy and negotiation strategies, periodically monitoring the risks that the Bank is exposed to, approving interest rate and yield policies, diversifying the Bank's sources of funding and revising and managing the Bank's liquidity contingency plan.

#### ***Information Technology Committee***

The Information Technology Committee is comprised of the Executive President, the Vice President of Corporate Services, the Vice President of the Retail & SMEs division, the Vice President of the Corporate & Government banking division, the Director of Information Technology Services, the Vice President of Risk Management, the Vice President of Strategy and Finance, the Vice President of Internal Audit and the Vice President of Digital Transformation and Innovation. This committee holds meetings at least every quarter.

The Information Technology Committee is responsible among other things for:

- Authorizing and presenting to the Board of Directors the Bank's strategic Information Technology plan, which must be in line with the Bank's business strategy;
- Authorizing the Information Technology operational plan and budget, which must be in line with the Bank's business strategy; and
- Presenting to the Board of Directors for approval the investment priorities of the Bank in matters related to Information Technology. Such investment priorities must be in line with the Bank's business objectives.

#### ***Retail & SMEs Risk Management Committee***

The Retail & SMEs Risk Management Committee is comprised of the Vice President of Risk Management, the Vice President of the Retail & SMEs banking division, the Vice President of Strategy and Finance and certain other members of our management, such as the Retail and SMEs risks director, the Loan and Reports Administration director, the Specialized Products director, the Segments and Consumer Products director, the Collections director, the Corporate & Government Banking Division Risk Director, the Financomer manager, the Normativity manager and the Customer Services director. The Retail & SMEs Risk Committee meets monthly.

The Retail & SMEs Risk Management Committee is responsible, among other things, for implementing methodologies and procedures to identify, measure, monitor, control and report all types of exposure measurement of existing risks and new operations, as well as implementing any modifications to the models, parameters and scenarios for the evaluation, measurement and control of credit risk, the design of internal risk management manuals in accordance with the objectives and policies approved by the Board of Directors and establishing the methodology for the monitoring maximum risk exposures and risk concentrations as relates to our Retail & SMEs business.

#### ***Operational Risk Committee***

The Operational Risk Committee is comprised of the Vice President of Risk Management, the Vice President of Corporate Services, the Vice President of Strategy and Finance, the Vice President of the Retail &

SMEs banking division, the Vice President of the Corporate & Government banking division and the Legal Vice President and General Counsel. The Operational Risk Committee meets monthly.

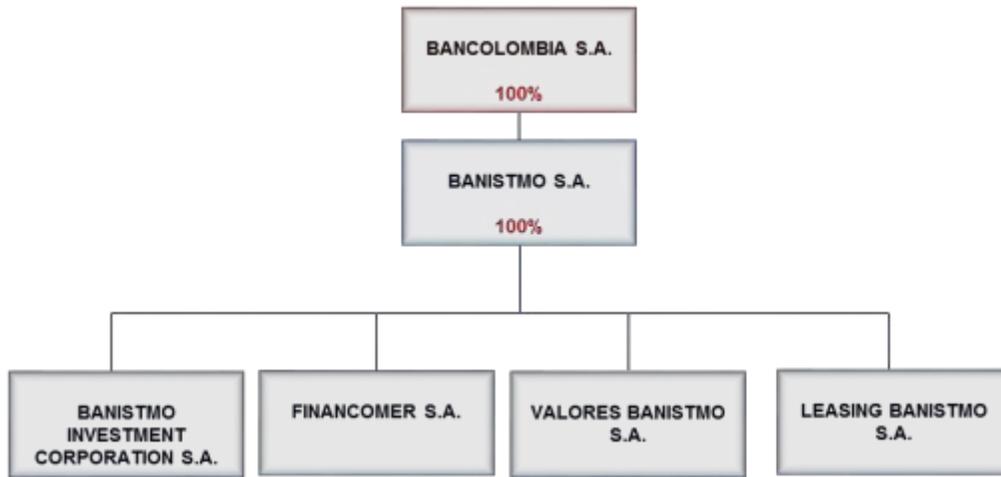
The Operational Risk Committee is responsible, among other things, for evaluating and recommending the operational risk management methodologies, ensuring that there is an adequate operational risk management process and informing the Risk Management Committee of the efficiency thereof, and evaluating the efficiency and consistency of the operational risk identification.

### **Compensation of Directors and Senior Management**

Compensation of senior management is based on performance and is determined in accordance with the Bank's applicable policies, which are subject to approval by the Board of Directors. Our directors and executive officers do not receive any cash or in kind compensation other than per diems for their participation in shareholders', Board of Directors or committee meetings.

## SHARE OWNERSHIP

As of the date of this offering memorandum, Banistmo is 100 % owned by Bancolombia.



Banistmo is controlled by the Grupo Bancolombia, the largest financial institution in Colombia with operations throughout the Central American and Andean regions. Bancolombia is listed on the Colombian stock exchange and in the New York Stock Exchange. Its largest stockholder is Grupo Sura, a large Latin American conglomerate, and the owner of Sura Asset Management S.A. and Suramericana S.A., among others. The operating subsidiaries of Banistmo are Banistmo Investment Corporation, Finacomer, Valores Banistmo and Leasing Banistmo. See “*Business — Our Stockholders and Group Affiliates.*”

## RELATED PARTY TRANSACTIONS

We engage in a variety of transactions with certain of our subsidiaries. All material transactions for Banistmo or any subsidiary or related parties are evaluated by our senior management and our Risk Management Committee, in accordance with the regulations of the Superintendency of Banks and internal guidelines applicable to all third-party transactions.

We extend loans to related parties, including to our executive officers and directors, in accordance with Panamanian law and regulations established by the Superintendency of Banks. Under Panamanian law, a bank or a bank holding company may not grant loans or issue guarantees or any other obligation to a related party exceeding 5% of its Adjusted Capital, in the case of unsecured transactions, or 10% of its Adjusted Capital, in the case of collateralized transactions (other than loans secured by deposits in the bank). Furthermore, the total limit to all related parties is set at a maximum of 25% of the bank or bank holding company's Adjusted Capital. In addition, a bank or bank holding company may not grant loans or other credit facilities to its related parties if such loans or credit facilities are secured solely with the shares of such bank or bank holding company. Banks also may not grant unsecured and unguaranteed loans or credit facilities to an employee in an amount exceeding the annual salary of such employee; and may not grant loans or other credit facilities to managers, officers or employees or any person or legal entity that owns 5% or more of its stock, or to anyone who forms an economic group with such persons, that are underpriced or that contain terms that are more favorable than those available in the market.

For these purposes, under the Banking law, a related party is: (i) one or more of the bank's directors, (ii) any stockholder of the bank who directly or indirectly owns at least 5% of the voting shares of the bank or bank holding company, (iii) any company of which one or more of the bank's directors is a director or officer or where one or more of the bank's directors is a guarantor of the loan or credit facility, (iv) any company or entity in which the bank or any one of its directors or officers can exercise a controlling influence, (v) any company or entity in which the bank or any one of its directors or officers owns 20% or more of the voting shares and (vi) the managers, officers and employees of the bank or their respective spouses (other than home mortgage loans or guaranteed personal loans under general programs approved by the bank for its employees). Because the Banking Law takes into account economic groups in defining related parties, any person that forms an economic group with any of the above will be considered a related party.

The Superintendency of Banks currently limits the total amount of loans, credit facilities, guarantees or any other obligations (other than credit facilities fully secured by deposits in the bank) granted by a bank or the ultimate parent of a banking group to related parties to 25% of the total consolidated capital of the bank, as determined and adjusted by applicable regulations. In accordance with Banking Law, the following loans are not computed when determining the 25% threshold: (i) loans guaranteed 100% by cash; (ii) mortgage loans used for the purchase or construction of the borrower's primary residence; (iii) personal loans guaranteed by a mortgage; and (iv) loans or credits duly secured by a lien on deposits in the same bank up to the value of the collateral.

The following table sets forth a description of the transactions entered into with Banistmo's directors and key management personnel and with entities within Grupo Bancolombia as of June 30, 2017 and December 31, 2016.

	<b>Directors and Key Management Personnel</b>		<b>Grupo Bancolombia</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets:</b>				
Deposits in banks.....	0.0	0.0	14,933,249	11,213,377
Loans .....	5,542,584	6,914,435	0.0	0.0
Accrued interest receivable.....	0.0	0.0	0.0	0.0
Investments .....	0.0	0.0	1,937,465	470,651
<b>Deposits:</b>				
Demand deposits and savings and Term deposits .....	985,679	829,038	15,344,510	13,465,030
Interbank time deposits .....	0.0	0.0	210,066,417	209,621,006
Borrowings .....	0.0	0.0	151,285,201	151,268,541
Other liabilities .....	0.0	0.0	235,309	233,297

The following table sets forth the income and expenses items corresponding to related party transactions for the periods indicated:

	<b>Directors and Key Management Personnel</b>		<b>Grupo Bancolombia</b>	
	<b>June 30, 2017</b>	<b>December 31, 2016</b>	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Interest income on:</b>				
Loans .....	100,984	58,778	0.0	0.0
Deposits .....	0.0	0.0	32,562	41,148
Other Income .....	0.0	0.0	22,233	0.0
<b>Interest expense on:</b>				
Deposits .....	2,922	6,664	1,464,490	823,422
Financings received .....	0.0	0.0	2,125,916	1,410,460
<b>General and administrative expenses:</b>				
Commission expenses .....	0.0	0.0	1,035,987	0.0
Employee benefits – short term .....	2,553,769	1,609,181	0.0	0.0

## SUPERVISION AND REGULATION

We operate in Panama under a general banking license issued by the Superintendency of Banks. Banks operating under a general banking license (the “General License Banks”) may engage in all banking-related activities in and/or from Panama, including taking local and offshore deposits, as well as making local and international loans.

Banking institutions in Panama are governed by the Banking Law. The Superintendency of Banks is the regulatory body responsible for the implementation and enforcement of the Banking Law in Panama and the supervision and regulation of all banks domiciled in Panama. No person may engage in the banking business in or from Panama without having been properly licensed and authorized by the Superintendency of Banks. Under the Banking Law, the Superintendency of Banks may issue three types of licenses:

- General Banking Licenses, which allow an entity to engage in banking activities in Panama, as well as carry out transactions that are executed, performed or take effect outside Panama and perform any other activity authorized by the Superintendency of Banks.
- International Banking Licenses, which allow a bank to engage from an office established within Panama in transactions that are perfected, consummated or have their desired effect outside the territory of Panama, and perform any other activity authorized by the Superintendency of Banks.
- Representation Banking Licenses, which allow licensed foreign banks to establish representation offices in Panama, and perform any other activity authorized by the Superintendency of Banks.

The Superintendency of Banks has the authority to grant and revoke banking licenses, set capital and liquidity ratio requirements, decide on the liquidation, intervention, merger or reorganization of any bank, decide on the removal of executive officers of any bank, impose sanctions on banks and issue secondary rules and regulations in accordance with the Banking Law.

The Superintendency of Banks has signed and executed agreements or letters of understanding with 25 foreign supervisory authorities for the sharing of supervisory information under the principles of reciprocity, appropriateness, national agreement and confidentiality. These foreign supervisory authorities include the U.S. Federal Reserve Board, the Office of the Comptroller of Currency of the U.S. Treasury Department, the U.S. Federal Deposit Insurance Corporation, the U.S. Office of Thrift Supervision and the U.S. Office for Savings Supervision. In addition, the Statement of Cooperation between the United States and Panama promotes cooperation between U.S. and Panamanian banking regulators and demonstrates the commitment of the U.S. regulators and the Superintendency of Banks to the principles of comprehensive and consolidated supervision.

### ***Banking Supervision and Regulation***

The Panamanian banking industry is currently undergoing a process of strengthening its regulation and supervision through the implementation of Basel II and Basel III. Basel III requires stricter capital requirements based on the most sophisticated measures of risk, with the aim of lessening the impact of eventual crises or important and unexpected losses. In order to implement Basel III capital standards, in January 2015 the Superintendency of Banks issued new regulations on capital adequacy. These regulations set forth the new composition of a banking institution’s capital base, as well as the new capital adequacy ratio, including Common Equity Tier I and Tier I capital ratio, all consistent with Basel III standards. In addition, the Superintendency of Banks has promulgated new regulations on credit risk, market risk, and operational risk. Further regulations to implement other aspects of Basel III are expected to be promulgated in the future Capital Adequacy Requirements.

### ***Capital Adequacy Requirements***

Accord No. 1-2015 applies to regulated entities, including banks with a General Banking License (such as us), state-owned banks and banks with an International Banking License whose supervisor is the Superintendency of Banks. It also applies to bank holding companies that are part of a corporate banking group with consolidated

operations in Panama, of which the Superintendency of Banks is the home supervisor. Additionally, Accord No. 1-2015 gives the Superintendency of Banks the power to apply capital adequacy requirements to any financial institution not contemplated above to secure the stability of Panama's financial system.

Accord No. 1-2015 breaks down capital into smaller sub-groups and sets forth the specific characteristics financial instruments must have in order to be allocated as Primary Capital or Secondary Capital. Under Accord No. 1-2015, a bank's Adjusted Capital consists of the sum of (i) Primary Capital (or Tier I Capital), (ii) Secondary Capital (or Tier II Capital) and (iii) the credit balance of the Dynamic Reserve. Primary Capital is further divided into Ordinary Primary Capital (or Common Equity Tier 1 Capital) and Additional Primary Capital (or Additional Tier 1 Capital).

- *Ordinary Primary Capital.* Includes paid-in capital in shares, surplus capital, declared reserves, retained earnings, minority interests in equity accounts of consolidated subsidiaries, other items of net total earnings and any other reserves authorized by the Superintendency of Banks.
- *Additional Primary Capital.* Includes instruments issued by a bank that comply with the criteria to be classified as Ordinary Primary Capital and that are not classified as Ordinary Primary Capital, issuance premiums from financial instruments considered Ordinary Primary Capital, financial instruments that are held by a third party and are issued by consolidated affiliates of the bank and any other financial instrument resulting from capital adjustments of Ordinary Primary Capital.
- *Secondary Capital.* Includes financial instruments that comply with the criteria set forth in Accord No. 1-2015 to be allocated as secondary capital and issued by a regulated entity, issuance premiums that result from financial instruments that are held by a third party and are issued by consolidated affiliates of the bank, and reserves for future losses (excluding provisions assigned to the deterioration of assets valued on an individual or collective basis).

The following items are the regulatory adjustments applicable to Ordinary Primary Capital: (i) current and cumulative losses; (ii) capital gains on significant investments in financial non-consolidated entities; (iii) other intangible assets; (iv) deferred taxes contingent on profitability of the bank; (v) provisions created to cover hedges not accounted for at their fair value; (vi) gains or losses from variations in credit risk; (vii) investments in proprietary shares; (viii) significant consolidated participation in non-financial entities; and (ix) significant participation in paid-capital on non-consolidated financial, banking and insurance entities.

The following items will be adjusted from the corresponding type of capital: (a) crossed ownership participation with other entities for purposes of artificially increasing the bank's capital and (b) investment instruments that are not common shares and require a significant participation. General License Banks are required to maintain a total adjusted capital over Risk-Weighted Assets ratio of ordinary primary capital over Risk-Weighted Assets of 4.00% as of January 1, 2017, 4.25% as of January 1, 2018 and 4.50% as of January 1, 2019. In addition, General License Banks are required to maintain a ratio of primary capital over Risk Weighted Assets of 5.50% as of January 1, 2017, 5.75% as of January 1, 2018 and 6.00% as of January 1, 2019.

The total Risk-Weighted Assets of a bank are the sum of (i) the Risk-Weighted Assets of such bank; (ii) the risk-weighted irrevocable contingent obligations; and (iii) the risk-weighted counterparty risk, which takes into consideration admissible values of collateral, admissible guarantees, permitted credit default swaps, and total return swaps, among others.

Banks classify Risk-Weighted Assets into ten different weight categories, which range from 0% to 250%. Risk-weight categories include, but are not limited to, (i) the Risk-Weighted Assets allocated to loans granted exclusively to Panama or instruments issued by Panama of 0%; (ii) the risk-weight allocated to residential and commercial mortgage loans, ranging between 35% and 100% and depending upon the loan-to-value and the age of the appraisal of the applicable property; (iii) the risk weight allocated to certain delinquent loans, which are now classified as having the same weight as overdue loans (*i.e.*, 125%); and (iv) the risk-weight assigned to derivatives that lack a contested valuation of 200%. The methodology of calculation of Risk-Weighted Assets also considers future potential exposure for derivative transactions and the irrevocable contingent obligations of a bank.

As of January 1, 2017, General License Banks are required to maintain (i) a Minimum Paid-In Capital (net of losses) of US\$10 million, (ii) an Adjusted Capital over Risk-Weighted Assets ratio of 8.0%, (iii) an Ordinary Primary Capital over Risk-Weighted Assets ratio of 4.0%, (iv) a Primary Capital over Risk-Weighted Assets ratio of 5.50% and (v) a Leverage Ratio (Ordinary Primary Capital over total assets) of 3%. On January 1, 2018 and January 1, 2019, General License Banks will be required to increase the Ordinary Primary Capital over Risk-Weighted Assets ratio to 4.25% and 4.50%, respectively. On January 1, 2018 and January 1, 2019, General License Banks will be required to increase the Primary Capital over Risk-Weighted Assets ratio to 5.75% and 6.00%, respectively.

#### *Dynamic Reserve and Specific Reserve*

In accordance with applicable regulations, we are required to maintain Dynamic Reserve and Specific Reserve. The Dynamic Reserve equals (i) the sum of the result of multiplying the outstanding amount of the Risk-Weighted Assets classified as Normal by the alpha factor of 1.50% *plus* the result of multiplying the positive variation between quarters of the Risk-Weighted Assets classified as Normal by the beta factor of 5%, if the result is negative then the number added is zero; *minus* (ii) the quarterly variation of the outstanding amount of the Specific Reserve. The Dynamic Reserve must be between 1.25% and 2.50% of the Risk-Weighted Assets corresponding to the credit facilities classified as “Normal Risk”; and cannot decrease in respect to the amount calculated for the previous quarter, except for cases when such decrease is a result of a conversion from Dynamic Reserve to Specific Reserve. The increases or decreases of the Specific Reserve and the Dynamic Reserve are allocated to, or from, retained earnings, and do not affect recorded net profit. Such reserves cannot be distributed to shareholders.

The Specific Reserve are reserves required in connection with the credit classification of a loan. They are created for individual credit facilities as well as for a consolidated group of credit facilities. The minimum reserve requirements depend on the classification of the loan according to the following criteria: (i) 0% for Normal, (ii) 2% for Special Mention, (iii) 15% for Subnormal, (iv) 50% for Doubtful and (v) 100% for Unrecoverable.

Specific Reserve requirements take into account the classification of the loan as well as the guarantees provided by the borrowers to secure such loans. Guarantees are calculated at present value in accordance with the requirements established by banking regulation.

Banks may create their own financial models to determine the amount of the Specific Reserves, subject to the approval of the Superintendency of Banks. In any event, the internal financial models used by each bank must comply with the aforementioned minimum specific reserve requirements.

#### *Liquidity*

General License Banks are currently required to maintain 30% of their global deposits in liquid assets (which include short-term loans to other investment grade banks and other liquid assets) of the type prescribed by the Superintendency of Banks. Additionally, General License Banks are required to maintain assets in Panama of no less than 85% of their local deposits or any other percentage fixed by the Superintendency of Banks. Under the Banking Law, deposits from central banks and other similar depositories of the international reserves of sovereign states are immune from attachment or seizure proceedings. Pursuant to the Banking Law, deposits from the subsidiaries or affiliates located overseas are excluded from gross global deposits for purposes of calculating the liquidity ratio.

The Superintendency of Banks requires General License Banks and International License Banks of which it is the home supervisor to provide reports with the calculation of the liquidity coverage ratio as determined by the Basel Committee on Banking Supervision in accordance with Basel III standards. Although banks are not yet required to maintain liquidity coverage ratios as established by Basel III, the Superintendency of Banks is monitoring compliance by banking institutions prior to issuing a regulation imposing the mandatory compliance of this ratio.

### *Liquid Assets*

Qualifying liquid assets for purposes of the regulatory liquidity ratio include: (i) gold; (ii) credit balances in the banking clearing agency; (iii) certain domestic bank deposits and domestic obligations with a maturity not exceeding 186 days; (iv) certain foreign bank deposits with a maturity not exceeding 186 days; (v) treasury notes and other securities issued by Panama with a maturity not exceeding one year; (vi) certain obligations guaranteed by foreign governments with investment grade; (vii) certain investment grade, marketable obligations issued by foreign governments or by international financial institutions of which Panama is a member; (viii) certain obligations guaranteed by banks, (ix) certain marketable securities issued by foreign private and governmental agencies (with long-term investment grade of AAA/Aaa or higher); and (x) deposits within the banking group, subject to restrictions set forth in Regulation 4-2008.

Qualifying liquid assets must be free of liens, encumbrances and transfer restrictions. The Superintendency of Banks may impose concentration limits and cash requirements, as well as weights per type of liquid assets.

### *Liquidity Coverage Ratio*

The Superintendency of Banks requires banks to provide reports with the calculation of the liquidity coverage ratio as determined by the Basel Committee on Banking Supervision in accordance with Basel III standards. Although banks are not yet required to maintain liquidity coverage ratios as established by Basel III, the Superintendency of Banks is monitoring compliance by banking institutions prior to issuing a regulation imposing the mandatory compliance of this ratio.

### *Lending Limits*

Banks and their holding companies are prohibited from granting, directly or indirectly, to any individual or legal person, including any entity that is part of the economic group of a bank, any loan or credit facility, guarantee or any other obligation (other than credit facilities fully secured by deposits in the bank) (“Credit Facilities”) in favor of said person exceeding at any time, individually or jointly, 25% of the total capital of the bank, as determined and adjusted by applicable regulations. The Banking Law also limits a bank and the ultimate parent of the banking group in granting loans or issuing guarantees or any other obligation to “related parties” that exceed (1) 5% of its total capital, in the case of unsecured transactions, or (2) 10% of its total capital, in the case of secured transactions (other than loans secured by deposits in the bank).

The Banking Law contains additional limitations and restrictions with respect to related party loans and credit facilities. For instance, under the Banking Law, banks may not grant credit facilities to any employee in an amount that exceeds the employee’s annual compensation package, and all credit facilities to managers, officers, employees or stockholders who are owners of 5% or more of the issued and outstanding capital stock of the lending bank or the ultimate parent of the banking group must be made on terms and conditions similar to those given by the bank to its customers in arm’s-length transactions and which reflect market conditions for a similar type of operation. Shares of a bank cannot be pledged or offered as security for loans or credit facilities issued by the bank.

### *Regulation of Banking Groups*

The Banking Law regulates banks and the entire “banking group” to which each bank belongs. Banking groups are defined as the holding company and all direct and indirect subsidiaries of the holding company, including the bank in question. Banking groups must comply with audit standards and various limitations set forth in the Banking Law, in addition to all compliance requirements applicable to the bank in question. The Banking Law provides that banks, and banking groups, in Panama are subject to inspection by the Superintendency of Banks, which must take place at least once every two years. The Superintendency of Banks is empowered to request from any bank or any company that belongs to the economic group of which a bank in Panama is a member, the documents and reports pertaining to its operations and activities. Banks are required to file with the Superintendency of Banks weekly, monthly, quarterly and annual information, including financial statements, an analysis of their credit facilities and any other information requested by the Superintendency of Banks. In addition, banks are required to make available for inspection any reports or documents that are necessary for the

Superintendency of Banks to ensure compliance with Panamanian banking laws and regulations. Banks subject to supervision may be fined by the Superintendency of Banks for violations of Panamanian banking laws and regulations.

#### *Loan-loss Reserves*

Panamanian banking regulations contain specific guidelines on loan classification. Such regulations specify five categories of loans: Normal, Special Mention, Subnormal, Doubtful and Unrecoverable. The banking regulations set out clear provisions in order to achieve consistent credit classifications, including assessing the loans based on which banking portfolio they fall into (*i.e.*, consumer, corporate, etc.) and to calculate specific and general loan-loss provisions. For additional information on the Superintendency of Banks’ classifications and requirements, and on the classification of our loan portfolio based on the Superintendency of Banks’ categories, please see “*Selected Statistical Information—Risk Categories—Classifications required by the Superintendency of Banks.*”

The implementation and effectiveness of loan classifications and loan-loss provisions are verified by the Superintendency of Banks through off-site and on-site examinations, based on the credit risk information available in the credit risk registry and by assessments done on-site on the credit management process and through tests regarding the quality of the credit evaluation.

Accord No. 4-2013, as amended by Accord No. 8-2014, requires banks to suspend the recognition of interest on nonperforming loans as follows: (i) when the bank determines the deterioration of the borrower’s repayment capacity; (ii) when a borrower has not made payments on interest and capital in more than 90 days for loans that finance commercial activities and/or production, including corporate loans and other loans; (iii) when a borrower has not made payments on interest and capital in more than 90 days for consumer loans and personal loans secured by mortgages; (iv) when a borrower has not made payments on interest and capital in more than 120 days for loans secured with residential mortgages; (v) when a loan has been granted making an exception to credit policies and procedures and such exceptions have not been amended or satisfied and there have been no payments 60 days after disbursement; (vi) when the debtor has not paid an overdraft within 30 days of its expiration date if the bank determines that there is a probability of not recovering the overdraft amount; and (vii) when the debtor has not paid an overdraft that does not have an expiration date within 30 days of its initial drawdown.

The Superintendency of Banks, through Accord No. 4-2013, requires that provisions not be lower than the standards set forth in the table below, but allows entities to determine the amount of provisions through internal models.

<b>Table of weights for the calculation of specific provisions</b>		<b>Table of minimum weights for the calculation of internal specific provisions</b>	
	<b>Weights</b>		<b>Weights</b>
Special Mention.....	20%	Special Mention.....	2%
Subnormal.....	50%	Subnormal.....	15%
Doubtful.....	80%	Doubtful.....	50%
Unrecoverable.....	100%	Unrecoverable.....	100%

#### *Insurance of Deposits*

The Panamanian government does not insure any deposits.

In case of liquidation of a bank, new deposits made during a bank’s reorganization and deposits of US\$10,000 or less have priority of payment under the Banking Law.

#### *Investments in Financial Instruments*

The Banking Law restricts the types of financial instruments in which Panamanian banks may invest. As a result, Panamanian banks may only invest in the permitted types of investments, including equity instruments traded on a stock exchange, debt instruments (if certain requirements are satisfied), sovereign debt instruments and quotas in mutual and investment funds.

### *Limitation on subsidiaries outside the banking and financial sectors*

The Banking Law restricts banks and bank holding companies from acquiring or maintaining any shares or participations in any entities not related with the banking or financial business in excess of 25% of their regulatory capital. Subject to prior approval of the Superintendency of Banks, a bank or a bank holding company may purchase or sell shares of any company engaged in securing bank deposits, promoting a securities market in Panama or improving the financing of economic development system.

### *Restriction on owning property*

The Banking Law prohibits banks from owning, leasing or purchasing land and real estate for their own benefit except: (a) when it is necessary to conduct the operations of the bank and its employees; (b) when it acquires land to construct housing complexes with the purpose of selling them and the sales of the project do not exceed 25% of the aggregate regulatory capital; and (c) under exceptional circumstances, subject to prior approval from the Superintendency of Banks.

Notwithstanding the above, banks that have land or real estate as collateral for loans granted to customers, in the event of a default of such loans, may acquire the property with the objective of selling such property.

### *Other Requirements*

In addition to the foregoing requirements, there are certain other requirements applicable to General License Banks, including that (1) a bank must notify the Superintendency of Banks before opening or closing a branch or office in Panama and obtain approval from the Superintendency of Banks before opening or closing a branch or subsidiary outside Panama; (2) a bank must obtain approval from the Superintendency of Banks before it liquidates its operations, merges or consolidates with another bank or sells all or substantially all of its assets; (3) a bank must notify the Superintendency of Banks, within the first three months of each fiscal year, of the name of the certified public accounting firm that it wishes to appoint as its independent auditing for the new fiscal term; (4) a bank must obtain prior approval from the Superintendency of Banks of the credit rating entity it wishes to hire to perform the credit rating assessment; (5) a bank must publish in a local newspaper the credit rating issued by the rating agency and any credit rating update; and (6) a bank must provide written affirmation of its audited financial statements signed by the Chairman of the Board, the Chief Executive Officer and Chief Financial Officer of the bank. Subsidiaries of Panamanian banks established in foreign jurisdictions must observe the legal and regulatory provisions applicable in Panama regarding the sufficiency of capital, as prescribed under the Banking Law.

### ***Bank Consumer Protection***

Bank consumer protection is mainly regulated by the Banking Law and its regulations. With respect to holders of credit cards issued by banks, provisions set forth in Law No. 45 of 2007, as amended, are also applicable, in addition to consumer protection provisions established in the Banking Law and its regulations. The Superintendency of Banks is responsible for overseeing compliance with bank consumer protection regulations, and is empowered to develop the necessary standards and determine their scope and interpretation. In addition, the Banking Law establishes that banks must have a department that tracks consumer complaints and their resolution. Bank consumer protection regulations principally relate to limits on penalties that the bank may impose, transparency of information on accounts, fees, commissions and other charges to bank consumers, and notification of price increases. We use credit reporting data that is regulated by consumer protection laws in Panama. The consumer protection laws establish guidelines as to the use of credit information published by the local Panamanian credit bureau.

### ***Banking Risks and Other Applicable Regulation***

#### *Corporate Governance*

The board of directors of a bank must be comprised of at least seven members, with knowledge and experience in the banking business, including at least two independent directors. The majority of the members of

the board of directors may not be part of the banks' management nor have material conflicts of interest. Neither the Chief Executive Officer, nor the Chief Operating Officer or Chief Financial Officer may preside over the board of directors. Members of the board of directors who participate in board-established committees must have specialized knowledge and experience in the areas assigned to the committees in which they participate. The board of directors must meet at least every three months and the presence of the majority of the non-management directors constitutes a quorum. The board of directors must keep detailed minutes of all meetings.

Minimum corporate governance requirements for banking institutions include: (a) documentation of the corporate values, strategic objectives and codes of conduct; (b) documentation that evidences compliance with the corporate values and code of conduct of the bank; (c) a defined corporate strategy that can be used to measure the contribution to the bank of each level of the corporate governance structure; (d) the designation of responsibilities and authorized decision-making authorities within the bank, and their individual powers and approval levels; (e) the creation of a system that regulates interaction and cooperation of the board of directors, senior management and external and internal auditors; (f) creation of control systems for independent risk management; (g) prior approval, monitoring and verification of risks for credit facilities with existing conflicts of interest; (h) creation of policies for recruitment, induction, continuous and up-to-date staff training and financial and administrative incentives; (i) existence of internal and public information that guarantee the transparency of the corporate governance system; (j) creation of a direct supervision system for each level of the organizational structure; (k) external audits independent of management or the board of directors; and (l) internal audits not related to the management of the bank.

Banks are required to maintain an internal control system to assess risks related to the nature and complexity of their activities. Internal control systems must at least have (a) a control environment; (b) an evaluation of the risks; (c) control activities, including policies, manuals and procedures; (d) adequate information and communication; (e) computer systems that guarantee the development, availability and contingency plans of the system; (f) monitoring of the system and its developments; and (g) independent supervision, self-assessment and evaluation of the effectiveness of the system.

Banks are required to have an internal audit department that is responsible for the assessment and constant monitoring of the internal control system of the bank. The internal audit department must be independent and have the powers necessary to assess compliance with the policies and adequate management of the risks to which the bank is exposed. The internal audit department must provide at least semi-annual reports to the board of directors and management of the bank that include results of audits performed by the department, recommendation for improvement and risk mitigations and the input from the corresponding audited areas of the bank in connection with any discrepancies and proposed corrective actions that are to be undertaken.

The audit committee must be comprised of members of the board of directors who are not part of the bank's management. The committee must meet at least once every two months and at least the general manager and internal auditor must participate in every meeting.

Banks are further required to develop and maintain policies for human resources, client relationships, and related party transactions as well as a policy for selection, retribution, assessment and training of the members of the board of directors, management and other employees.

### *Integral Risk Management*

Panamanian banking regulations contain guidelines for integral risk management of financial institutions. Integral risk management is a process intended to identify potential events that can affect banks and to manage those events according to their nature and risk level. This regulation covers risks including: (i) credit risk; (ii) market risk; (iii) operational risk; (iv) strategic risk; (v) liquidity risk; (vi) legal risk; (vii) country risk; (viii) contagion risk; (ix) counterparty risk; (x) technological risk; and (xi) reputational risk.

### *Credit Risk*

Accord No. 8-2010 defines credit risk as the probability of the bank incurring losses as a result of the inability of its borrowers to comply with the terms of a credit agreement. We use the standardized or internal rating-based (IRB) methodology to calculate our regulatory capital requirements for credit risk. The IRB methodology utilizes the parameters set forth in Accord No. 3-2016 for risk-weighting of assets.

### *Market Risk*

Regulations for the supervision of market risk require banks to establish internal policies and procedures to monitor this risks. Accord No. 8-2010 defines market risk as the probability of loss derived from exposure to various classes of commodities, securities, foreign exchanges, derivative operations or commercial assets that banks may hold in their portfolio, which may or may not be accounted for in their balance sheets. Current Panamanian regulations do not impose on banks the obligation to comply with minimum capital requirements to counterbalance potential losses arising from market risks.

### *Operational Risk*

Accord No. 7-2011, as amended, defines operational risk as the possibility of suffering financial losses from deficiencies in internal procedures, information technology, infrastructure or personnel, or the occurrence of adverse external events. We have established policies and procedures to identify, measure, control and report such risks. Pursuant to Accord No. 7-2011, as amended, banks are required to mitigate operational risks involved in their operations and services in order to minimize possible financial losses due to inadequate or nonexistent policies or procedures. Current Panamanian regulations do not impose on banks the obligation to comply with minimum capital requirements to counterbalance the potential losses arising from operational risks.

### ***Insolvency, Intervention and Compulsory Liquidation***

Under the Banking Law, the Superintendency of Banks can assume the administrative and operational control of a bank, including possession of its assets and seizure of its management, in order to protect the interests of the bank's depositors and creditors, in any of the following circumstances: (i) at the request of the bank; (ii) if the bank may not continue operations without endangering the interests of the depositors; (iii) as a consequence of the evaluation of an advisor's report; (iv) noncompliance with the measures ordered by the Superintendency of Banks; (v) if the bank carries out its operations in an illegal, negligent or fraudulent manner; (vi) if the bank has suspended payment of its obligations; and (vii) if the Superintendency of Banks confirms that the capital adequacy, solvency or liquidity of the bank has deteriorated in such a way as to require the Superintendency of Banks to intervene. At the moment of seizing administrative and operational control of the bank, the Superintendent will designate an interim administrator to exclusively exercise the legal representation of the bank on behalf of the Superintendency of Banks. The term of the interim administration will not be longer than 30 days, except in extraordinary circumstances where such term is extended, in which case the extension period shall not be longer than 30 days. The interim administrator may be an employee of the seized bank.

Upon expiration of the period of administrative control, the Superintendent will decide whether to proceed with the reorganization of the bank, the compulsory liquidation of the bank or the return of administrative and operating control to the directors or legal representatives of the bank, as the case may be.

If the Superintendency of Banks elects to pursue a reorganization, the reorganizer shall have ample powers, including those to: (i) amortize all losses against Primary Capital and Secondary Capital, as well as to determine the value of the stock at that point in time; (ii) appoint new executive officers; (iii) authorize the issuance of new stock as well as its sale to third parties at a price determined by the reorganizer; (iv) negotiate and execute the merger or consolidation of the bank with one or more banks, obtaining of loans for the bank, the sale or partial liquidation of the bank's assets or the acceptance of liens over said assets; and (v) recommend to the Superintendency of Banks the compulsory liquidation of the Bank.

If the Superintendency of Banks considers that the compulsory liquidation of the Bank is necessary, it will order the administrative liquidation of the Bank and will designate a liquidator. In the event of liquidation, the Bank's obligations will be paid in the following order of precedence: (i) all of our secured indebtedness with respect to the value of our assets securing that indebtedness; (ii) debts of the liquidation estate (*deudas de la masa*) in the event of our forceful liquidation; (iii) new deposits created during a reorganization period ordered by the Banking Regulatory Authority; (iv) deposits with a balance of US\$10,000 or less; (v) claims from employees for unpaid wages and other employee's severance and compensation payments; (vi) claims from the Panamanian Social Security Administration (*Caja de Seguro Social*) for unpaid employer-employee social security contributions; (vii) claims from the Panamanian government or any municipality for unpaid taxes; and (viii) other claims that are granted preference as a matter of law.

While the Banking Law treats senior unsecured indebtedness issued at different times as *pari passu* in accordance with the terms of that indebtedness, the civil code treats previously issued senior unsecured indebtedness as senior to any new senior unsecured indebtedness. While we expect that a court would treat all of our senior unsecured indebtedness as *pari passu* in accordance with the Banking Law, we cannot assure you that a court would not apply the civil code, which would make all senior unsecured debt issued prior to the Notes senior to the Notes. See "*Risk Factors—Risks Relating to the Notes—Enforcing your rights as a holder of Notes in Panama may prove difficult.*"

The liquidator or liquidation board will have ample powers, including those to: (i) suspend or limit the payment of obligations in accordance with the availability of funds; (ii) manage, control and guard the assets of the Bank; (iii) assign or sell assets at fair market value, net of reserves and any other adjustment required by the Superintendency of Banks; (iv) transfer to a trust a portion or all of the assets and liabilities of the Bank; (v) take any action and enter into any contract that will permit the transfer of the assets or liabilities to a trust; (vi) establish the terms and conditions of the trust for purposes of the liquidation of the transferred assets and liabilities; and (vii) any other power granted by the Superintendency of Banks.

### **Panamanian Anti-Money Laundering Laws and Regulations**

Panamanian anti-money laundering requirements are primarily regulated by (i) Executive Decree No. 136 of June 9, 1995, which created a Financial Analysis Unit ("UAF") for the Prevention of Money Laundering, and (ii) Law No. 23 of April 27, 2015 ("Law 23"), regulated by Executive Decree No. 363 of August 13, 2015, pursuant to which banks and trust corporations, among other financial institutions, are required to perform their operations with due diligence and due care conducive to preventing such operations from being performed with funds, or over funds, generated from activities related to money laundering.

Law 23 and Accord No. 7-2015 provide that the following entities are deemed to be "supervised entities" for purposes of supervision, reporting and compliance requirements: (i) banks; (ii) bank groups; (iii) trust corporations; (iv) leasing companies; (v) factoring companies; (vi) credit, debit or prepaid card processing entities; (vii) companies engaged in remittances or wire transfers; and (viii) companies that provide any other service related to trust companies. These entities must take necessary measures to prevent their operations and/or transactions from being used for money laundering, financing of terrorism or any other illicit activity.

Furthermore, Law 23 provides that the supervised entities are required to provide transaction reports to the UAF, and/or require from their customers, attorneys-in-fact or representatives, the necessary declarations for purposes of this law, particularly for the following cases:

- a. Deposits or withdrawals of money in cash or quasi-cash made in accounts from person or entities for an amount of US\$10,000 or more, or through successive transactions that, although individually are for amounts inferior to US\$10,000, at the end of the day or of the week total US\$10,000 or more.
- b. Exchanges of cash in low denominations for cash in high denominations or vice versa, for an amount of US\$10,000 or more, or through successive transactions that, although individually are for amounts inferior to US\$10,000, at the end of the day or of the week total US\$10,000 or more.

- c. Cashing of cashier's checks, traveler checks or money orders, issued to the bearer, with blank endorsements and issued on the same date or nearby dates for the same issuers or issuers of the same market.
- d. Purchase and sale of currency different from the legal tender in the Republic of Panama, equivalent to US\$10,000 or more, or through successive transactions that, although individually are for amounts inferior to US\$10,000, at the end of the day or of the week total US\$10,000 or more.
- e. Payments or collections in cash or quasi-cash for an amount of US\$10,000 or more, or the sum of such amounts in one week that total US\$10,000 or more, by a single customer or by a third party acting on behalf of a single customer.

Supervised entities are subject to sanctions for noncompliance with the anti-money laundering and anti-terrorist financing requirements by the supervisory authorities in accordance with each supervisory authority's sanctioning powers.

Non-compliance with Law 23, or those dictated by the pertinent authorities for supervision of each activity for which there is no specific sanction established, will be subject to fines ranging from US\$5,000 to US\$1,000,000.

Banks are required to implement measures to prevent their operations and/or transactions from being used for money laundering operations. These measures include: (i) compliance with "Know Your Customer" policies by creating a profile for each customer, paying special attention to accounts over US\$10,000; (ii) supervision of employee activities; (iii) tracking the activity of every customer account to understand their regular activities and be able to identify unusual transactions; (iv) keeping a registry of every suspicious transaction and notifying the UAF; (v) conducting internal audits every six months on accounts with funds exceeding US\$10,000, with the purpose of determining if transactions made in these accounts are consistent with the account holder's usual behavior; and (vi) monitoring accounts of clients labeled as politically exposed persons.

### **Fiduciary Activity**

One of our subsidiaries, Banistmo Investment Corporation S.A., holds a fiduciary license, and its fiduciary activities are regulated by the Fiduciary Law of Panama and supervised by the Superintendency of Banks. The Fiduciary Law of Panama establishes the norms for operating as a fiduciary (trustee) in Panama, including the establishment of minimum guarantees and periodic reporting requirements.

### **Broker-Dealer Activity**

One of our subsidiaries, Valores Banistmo S.A., holds a Broker-Dealer License and Investment Management License. Its business activities are regulated by Panama's securities laws and supervised by the SMV. The SMV regulates and supervises issuers, broker-dealer firms, intermediaries and other entities participating in the Panamanian capital markets, or in foreign capital markets from Panama, with the aim of ensuring transparency and protecting investors' rights.

### **Disclosure of Information to the SMV**

On November 23, 2016, we submitted to the SMV a prospectus that would allow us to issue debt securities in the local market in a series of offerings up to a maximum amount of US\$300 million. As of the date of this offering memorandum, the SMV has not approved the filed prospectus. Assuming the SMV approves the prospectus, we would become subject to the SMV's disclosure requirements, including the requirement to file an annual report, together with our audited financial statements and the report of our independent auditors, and quarterly reports, together with our unaudited financial statements. We would also be required to report certain material nonpublic "relevant events" (*hechos relevantes*) that could have an impact on the market price of a security and/or the behavior of the investors and/or sellers of securities.

## DESCRIPTION OF THE NOTES

As used below in this “Description of the Notes” section, the “Bank” means Banistmo S.A., a *sociedad anónima* organized and existing under the laws of Panama, and its successors, but not any of its subsidiaries. The Bank will issue the Notes described in this offering memorandum under an indenture (the “Indenture”) to be executed among the Bank and The Bank of New York Mellon, as trustee (the “Trustee”), registrar, paying agent and transfer agent. You may obtain a copy of the Indenture from the Bank at its address set forth elsewhere in this offering memorandum.

The following is a summary of the material terms and provisions of the Notes. The following summary does not purport to be a complete description of the Notes and is subject to the detailed provisions of, and qualified in its entirety by reference to, the Indenture. You can find definitions of certain terms used in this description under the heading “—Certain Definitions.”

The Notes are being issued by the Bank as senior unsecured notes due 2022 under the Indenture. The Notes are not treated under the banking laws and regulations of Panama as bank deposits, and the Holders are not required to open accounts with the Bank. Holders will not have recourse to deposit insurance or any other protections afforded to depositors in financial institutions under the laws of any jurisdiction.

### General

The Notes:

- will be senior unsecured obligations of the Bank;
- will be initially issued in an aggregate principal amount of US\$500,000,000;
- will mature on September 19, 2022;
- will be subject to redemption at the Bank’s option prior to maturity, as described under “—Optional Redemption” and “—Early Redemption upon a Withholding Tax Event”; and
- will be issued in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

Interest on the Notes:

- will accrue on their outstanding principal amount at the rate of 3.650% per year;
- will accrue from the date of issuance or from the most recent interest payment date;
- will be payable, in cash, semi-annually in arrears on March 19 and September 19 of each year, commencing on March 19, 2018;
- will be payable to the Holders of record on the calendar day (whether or not a Business Day) immediately preceding the related interest payment date; and
- will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The Bank may, from time to time, without notice or consent of the Holders, create and issue an unlimited principal amount of additional notes (the “Additional Notes”) having the same terms and conditions (except for issue date, issue price and, if applicable, the first payment date) as, and forming a single series with, the Notes initially issued in this offering.

The Indenture does not include any debt covenants or other provisions that afford Holders protection in the event of a highly leveraged transaction.

The Bank will be required, without limiting any of its payment obligations under the Indenture, to duly comply with any and all then applicable regulations for remittance of funds outside Panama, if any. Any Additional Notes shall be issued under a separate CUSIP or ISIN number unless the Additional Notes are fungible with the original series for U.S. federal income tax purposes.

### **Additional Amounts**

All payments made by the Bank under or with respect to the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future Taxes imposed or levied by or on behalf of any Taxing Authority in any jurisdiction in which the Bank is organized or is otherwise resident for tax purposes or any jurisdiction from or through which payment is made (each a “Relevant Taxing Jurisdiction”), unless the Bank is required to withhold or deduct Taxes by law or by the interpretation or administration thereof. If the Bank is required to withhold or deduct any amount for or on account of Taxes imposed by a Relevant Taxing Jurisdiction from any payment made under or with respect to the Notes, the Bank will pay such additional amounts (“Additional Amounts”) as may be necessary so that the net amount received by each Holder (including Additional Amounts) after such withholding or deduction will equal the amount the Holder would have received if such Taxes had not been withheld or deducted; *provided, however*, that no Additional Amounts will be payable in respect of any Note:

- (1) to the extent that such Taxes are imposed or levied by reason of such Holder (or the beneficial owner) having some present or former connection with the Relevant Taxing Jurisdiction (including but not limited to citizenship, nationality, residence, domicile, or existence of a business, permanent establishment, a dependent agent, a place of business or a place of management present or deemed present in the Relevant Taxing Jurisdiction) other than the mere holding (or beneficial ownership) of such Note or receiving principal or interest payments on the Note;
- (2) to the extent that any Tax is imposed other than by deduction or withholding from payments of principal or premium, if any, or interest on the Notes;
- (3) in the event that the Holder (or beneficial owner) fails to comply with any certification, identification or other reporting requirement concerning nationality, residence, identity or connection with the Relevant Taxing Jurisdiction if compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or part of the Taxes, and the Bank has given the Holders (or beneficial owners) at least 30 days’ prior notice that they will be required to comply with such requirement;
- (4) in the event that the Holder fails to surrender (where surrender is required) the Note for payment within 30 days after the Bank has made available a payment of principal or interest; provided that the Bank will pay Additional Amounts to which a Holder would have been entitled had the Note been surrendered on the last day of such 30-day period;
- (5) in the event that a Holder that is a fiduciary, a partnership, a limited liability company or any person other than the sole beneficial owner of any such payment to the extent that a beneficiary or settlor with respect to such fiduciary, a partner of such partnership, a member of such limited liability company, or the beneficial owner of the payment would not have been entitled to the Additional Amounts had the beneficiary, settlor, partner, member or beneficial owner been the Holder of the Note;
- (6) to the extent that such Taxes are imposed by reason of an estate, inheritance, gift, personal property, value added, use or sales tax or any similar taxes, assessments or other governmental charges;

- (7) by or on behalf of a Holder in the European Union who would have been able to avoid such withholding or deduction of Taxes by presenting the relevant Note to another paying agent in a member state of the European Union; or
- (8) any combination of items (1) through (7) above.

Whenever in the Indenture or in this “Description of the Notes” there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, interest or of any other amount payable under or with respect to any of the Notes, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Taxes are, were or would be payable in respect thereof. However, no Holder of a Note shall be entitled to receive any Additional Amounts greater than the amounts necessary in order that the net amounts receivable by such Holder after such withholding or deduction equal the respective amounts which would have been receivable by such Holder in the absence of such withholding or deduction, subject to the exceptions above.

The Bank will promptly provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of Taxes so deducted or withheld.

The Bank will pay any present or future stamp, court or documentary taxes, or any other excise or property taxes, charges or similar levies imposed by Panama or any jurisdiction in which the Bank is otherwise resident for tax purposes (or, in each case, any political subdivision or governmental authority thereof or therein having power to tax) with respect to the initial execution and delivery or enforcement of the Notes or Indenture.

Notwithstanding anything under “—Additional Amounts” to the contrary, neither the Bank, any paying agent nor any other person making payments on behalf of the Bank shall be required to pay Additional Amounts in respect of such taxes imposed pursuant to Section 1471(b) of the Internal Revenue Code of 1986, as amended (the “Code”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

For a discussion of Panamanian withholding taxes applicable to payments under or with respect to the Notes, see “Taxation.”

### **Notices**

The Bank will give notices to Holders of global Notes held by a custodian for DTC in accordance with the applicable procedures of DTC. The Bank will consider a notice to be given at the time it is given to DTC. If the Bank issues Notes in certificated form, notices to be given to Holders will be sent by mail to the respective addresses of the Holders as they appear in the Registrar’s records, and will be deemed given when mailed.

Neither the failure to give any notice to a particular Holder, nor any defect in a notice given to a particular Holder, will affect the sufficiency of any notice given to another Holder.

From and after the date the Notes are listed on the SGX-ST and so long as (i) a listing on the SGX-ST is maintained and (ii) publication of notices is required by the rules of the SGX-ST, all notices to Holders of Notes will be published as required by the rules of the SGX-ST. Notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication.

### **Ranking of Notes**

The Notes will at all times constitute the Bank’s general senior, unsecured and unsubordinated obligations and will rank *pari passu*, without any preferences among themselves, with all of the Bank’s other present and future unsecured and unsubordinated obligations (other than obligations preferred by statute or by operation of law). The Notes will be effectively subordinated to (i) all of the Bank’s existing and future secured indebtedness with respect to the value of the Bank’s assets securing that indebtedness; (ii) debts of the liquidation estate (*deudas de la masa*) in the event of our compulsory liquidation; (iii) new deposits created during a reorganization period ordered by the

Bank Regulatory Authority (as defined below); (iv) deposits with a balance of US\$10,000.00 or less; (v) claims from employees for unpaid wages and other employee's severance and compensation payments; (vi) claims from the Panamanian Social Security Administration (*Caja de Seguro Social*) for unpaid employer-employee social security contributions; and (vii) claims from the Panamanian government or any municipality for unpaid taxes; and (viii) other claims that are granted preference as a matter of law. The Notes will be structurally subordinated to the existing and future obligations of the Bank's subsidiaries, including trade payables.

As of June 30, 2017, the Bank had US\$39,000,000 of senior secured indebtedness that would rank senior to the Notes.

### **Optional Redemption**

The Bank may, at its option, redeem the Notes, in whole or in part, (i) at any time or from time to time prior to August 19, 2022, upon at least 30 days' but not more than 60 days' written notice to the Holders, at a redemption price calculated by the Bank equal to the greater of (1) 100% of the principal amount on such redemption date of the Notes to be redeemed and (2) the sum of the present values on such redemption date of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption), in each case calculated as if the maturity date of the Notes were August 19, 2022, discounted to, but excluding, the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 30 basis points (the "Make-Whole Amount"), plus, in each case, accrued and unpaid interest to, but excluding, the redemption date on the Notes to be redeemed on such date; and (ii) at any time on or after August 19, 2022, upon at least 30 days' but not more than 60 days' written notice to the Holders, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

"*Treasury Rate*" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"*Comparable Treasury Issue*" means the U.S. Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed, if the maturity date of the Notes were August 19, 2022, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the Notes, if their maturity date were August 19, 2022.

"*Independent Investment Banker*" means one of the Reference Treasury Dealers appointed by the Bank.

"*Comparable Treasury Price*" means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations quoted to an entity selected by the Bank for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if such entity is quoted fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"*Reference Treasury Dealer*" means J.P. Morgan Securities LLC or Morgan Stanley & Co. LLC or their respective affiliates that are primary U.S. government securities dealers and three other leading primary U.S. government securities dealers in New York City reasonably designated by the Bank; *provided, however*, that if any of the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a "*Primary Treasury Dealer*"), the Bank will substitute another Primary Treasury Dealer therefor.

"*Reference Treasury Dealer Quotation*" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by an entity selected by the Bank, of the bid and asked prices for the Comparable Treasury Issue (expressed, in each case, as a percentage of its principal amount) quoted in writing to an Independent Investment Banker selected by the Bank by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on the third Business Day preceding such redemption date.

On and after the redemption date, interest will cease to accrue on the Notes or any portion of the Notes called for redemption (unless the Bank defaults in the payment of the redemption price and accrued interest). On the Business Day immediately preceding the redemption date, the Bank will deposit with the Trustee money sufficient to pay the redemption price of and (unless the redemption date shall be an interest payment date) accrued interest to the redemption date on the Notes to be redeemed on such date. If less than all of the Notes are to be redeemed, the Trustee shall select the Notes to be redeemed in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed as instructed by the Bank in writing or, if the Notes are not then listed on a national securities exchange, on a pro rata basis, by lot or in another fair and reasonable manner chosen at the discretion of the Trustee, subject, in each case, to the procedures of DTC.

### **Early Redemption upon a Withholding Tax Event**

The Bank may, upon the occurrence of a Withholding Tax Event, at its option, redeem the Notes, in whole but not in part, on at least 30 days' but no more than 60 days' written notice to the Holders, at a redemption price equal to the Base Redemption Amount; provided, however, that the Bank will not give any such notice of redemption earlier than 90 days prior to the earliest date on which the Bank would be obligated to pay Additional Amounts if a payment in respect of the Notes was then due. Prior to the giving of any notice of redemption of the Notes to the Holders, the Bank will deliver to the Trustee (1) an Officers' Certificate stating that obligation to pay such Additional Amounts cannot be avoided by the Bank taking reasonable measures available to it (such measures not involving any material cost to the Bank or the incurring by the Bank of any other material tax or penalty) and (2) an Opinion of Counsel under the laws of the Relevant Taxing Jurisdiction to the effect that the Bank has or will become obligated to pay or will be liable for Additional Amounts as a result of a Withholding Tax Event.

*"Base Redemption Amount"* means the aggregate principal amount of the Notes, plus accrued and unpaid interest in respect of the current interest period to (but excluding) the redemption date, plus Additional Amounts, if any.

*"Withholding Tax Event"* means that, as a result of:

- (1) any change in, amendment to, or official pronouncement by a competent authority of any Relevant Taxing Jurisdiction with respect to, the laws (or any regulations or rulings issued thereunder) or treaties of such Relevant Taxing Jurisdiction, including any political subdivision thereof or any taxing authority therein, as applicable, which change, amendment or pronouncement is announced and becomes effective, (a) in respect of Panama, on or after the date of issuance of Notes, and (b) in respect of any other Relevant Taxing Jurisdiction, on or after the date such jurisdiction becomes a Relevant Taxing Jurisdiction;
- (2) any judicial decision, official administrative announcement or regulatory procedure of any Relevant Taxing Jurisdiction, including any political subdivision thereof or any taxing authority therein, as applicable, which is announced and becomes effective, (a) in respect of Panama, on or after the date of issuance of Notes, and (b) in respect of any other Relevant Taxing Jurisdiction, on or after the date such jurisdiction becomes a Relevant Taxing Jurisdiction; or
- (3) any change in the application, administration or official interpretation of such laws, regulations or rulings, including, without limitation, the holding of a court of competent jurisdiction, which change in application, administration or interpretation is announced or becomes effective, (a) in respect of Panama, on or after the date of issuance of Notes, and (b) in respect of any other Relevant Taxing Jurisdiction, on or after the date such jurisdiction becomes a Relevant Taxing Jurisdiction,

the Bank will be, on or after the date of issuance of Notes, obligated to pay such Additional Amounts in respect of the Notes on the next payment date.

## Change of Control Offer

Upon the occurrence of a Change of Control, unless the Bank has exercised its option to redeem the Notes as described above under “—Optional Redemption,” the Bank will be obligated to make an offer (the “Change of Control Offer”) to each Holder to repurchase all or any part (equal to US\$200,000 or any integral multiple of US\$1,000 in excess thereof) of that Holder’s Notes at a purchase price equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest to, but excluding, the date of repurchase (the “Change of Control Payment”).

Within 30 days following the date upon which the Change of Control occurred, or, at the Bank’s option, prior to any Change of Control but after public announcement of the transaction that constitutes or may constitute the Change of Control, notice will be given to Holders describing the transaction that constitutes or may constitute the Change of Control offering such Holders to repurchase the Notes on the date specified in such notice (the “Change of Control Payment Date”), which date will be no earlier than 30 days and no later than 60 days from the date such notice is given or, if the notice is given prior to the Change of Control, no earlier than 30 days and no later than 60 days from the date on which the Change of Control occurs. The notice will, if given prior to the date of consummation of the Change of Control, state that the offer to purchase is conditioned on the Change of Control occurring on or prior to the Change of Control Payment Date.

On the Business Day immediately preceding the Change of Control Payment Date, the Bank will, to the extent lawful, deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered.

On the Change of Control Payment Date, the Bank will, to the extent lawful:

- (1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer; and
- (2) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officers’ Certificate stating the aggregate principal amount of Notes or portions of Notes being repurchased.

The Bank will publicly announce the results of the Change of Control Offer on or as soon as possible after the Change of Control Payment Date.

“*Change of Control*” means the consummation of a transaction whereby Bancolombia S.A. ceases to (1) be the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”)), directly or indirectly, of more than 50.0% of the Bank’s outstanding Voting Stock or (2) possess, directly or indirectly, the power to direct or cause the direction of the Bank’s management and policies, whether through the ownership of voting securities, by contract or otherwise, in each case, including, without limitation, as a result of a consolidation or merger or conveyance, transfer or lease of assets.

“*Voting Stock*” means, with respect to any Person, any and all shares, interests, participations or other equivalents of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

The Bank will not be required to make a Change of Control Offer upon the occurrence of a Change of Control if a third party makes such an offer in the manner, at the time and otherwise in compliance with the requirements for an offer made by the Bank and the third party purchases all Notes properly tendered and not withdrawn under its offer.

The Bank will comply in all material respects with the requirements of Rule 14e-1 under the Exchange Act, and any other securities laws and regulations thereunder, to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control. To the extent that the provisions of any such securities laws or regulations conflict with the Change of Control Offer provisions of the Notes, the Bank

will not be deemed to have breached its obligations under the Change of Control Offer provisions of the Notes as a result of complying with those securities laws and regulations.

### **Certain Covenants**

The Indenture will contain the following covenants:

#### ***Mergers, Consolidations, etc.***

The Bank will not consolidate with or merge into, or sell, lease, convey or transfer, in one transaction or a series of transactions, all or substantially all of the Bank's properties and assets to any Person, unless:

- (1) the surviving entity, if other than the Bank, is organized and existing under the laws of (A) Panama, (B) the United States or any state thereof, (C) any country member of the Organisation for Economic Co-Operation and Development or the G-20 or (D) any other country having an international investment grade rating from each of Fitch Ratings, Inc. and S&P Global Ratings at the time of such consolidation, merger, sale, lease, conveyance, transfer or such other disposition, and any state thereof (to the extent applicable) and assumes via supplemental indenture all of the Obligations under the Notes and the Indenture;
- (2) immediately after giving effect to such transaction, no Event of Default will have occurred and be continuing with respect to the Bank or the surviving entity, as the case may be; and
- (3) the Bank or the surviving entity will have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each in form and substance satisfactory to the Trustee, stating that such consolidation, merger, sale, lease, conveyance or transfer, and if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the requirements of the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied and that the Indenture and the Notes constitute legal, valid and binding obligations of the continuing person, enforceable in accordance with their terms.

In case of any such consolidation, merger, sale, lease, conveyance or transfer, such successor corporation will succeed to and be substituted for the Bank as obligor on the Notes with the same effect as if it had issued the Notes. Upon the assumption of the Bank's obligations by any such successor corporation in such circumstances subject to certain exceptions, the Bank will be discharged from all obligations under the Notes and the Indenture.

For purposes of the above, "G-20" means the Group of Twenty (G-20) Finance Ministers and Central Bank Governors.

#### ***Maintenance of Office or Agent for Service of Process***

The Bank shall maintain an office or agent for service of process in the Borough of Manhattan, The City of New York, where notices to and demands upon the Bank in respect of the Notes and the Indenture may be served. Initially this agent will be C T Corporation System, and the Bank will agree not to change the designation of such agent without prior notice to the Trustee and designation of a replacement agent in the Borough of Manhattan, The City of New York.

#### ***Periodic Reports***

So long as any Notes are outstanding, the Bank will furnish to the Trustee:

- (1) within 120 days after the end of each fiscal year, an English version, or an English translation of, its consolidated audited financial statements for the most recent fiscal year, prepared in accordance with IFRS (except to the extent that deviations therefrom are required to comply with the reporting requirements of the Superintendent of Banks), together with an audit report thereon by its

independent auditors and with the corresponding notes to the financial statements in English, accompanied by an Officers' Certificate stating that no Event of Default has occurred during such period or, if one or more has/have occurred, specifying each such event and what actions have been taken and/or will be taken with respect to each such event; and

- (2) within 60 days after the end of each of the first three fiscal quarters of each fiscal year, an English version, or an English translation of, its unaudited financial statements for the most recent fiscal quarter, prepared in accordance with IFRS (except to the extent that deviations therefrom are required to comply with the reporting requirements of the Superintendent of Banks).

In addition, the Bank shall furnish to the Holders and to *bona fide* prospective investors in the Notes, upon their requests (which in the case of *bona fide* investors in the Notes may be subject to customary confirmation of such status), the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as such Notes are not freely transferable under the Securities Act by "persons" who are not "affiliates" under the Securities Act.

In addition, if and so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, copies of such reports and information furnished to the Trustee will also be made available by way of announcement on the website of the SGX-ST.

Delivery of such information and documents to the Trustee (other than the Officers' Certificate referred to in clause (1) above) shall be for informational purposes only and the Trustee's receipt of such reports, information and documents shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Bank's compliance with any of the covenants contained in the Indenture (as to which the Trustee will be entitled to conclusively rely upon an Officers' Certificate).

#### ***Further Actions***

The Bank will, at its own cost and expense, satisfy any condition or take any action (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required, as may be necessary or as the Trustee may reasonably request, in accordance with applicable laws and/or regulations, to be taken, fulfilled or done in order to: (1) enable the Bank to lawfully enter into, exercise its rights and perform and comply with its obligations under the Indenture and the Notes, as the case may be; (2) ensure that its obligations under the Indenture and the Notes are legally binding and enforceable; (3) make the Indenture and the Notes admissible in evidence in the courts of the State of New York and Panama; (4) preserve the enforceability of, and maintain the Trustee's rights under, the Indenture; and (5) respond to any reasonable requests received from the Trustee to facilitate the Trustee's exercise of its rights and performance of its obligations under the Indenture and the Notes, including exercising and enforcing its rights under and carrying out the terms, provisions and purposes of the Indenture and the Notes.

#### **Events of Default**

Each of the following is an "Event of Default":

- (1) failure by the Bank to pay interest or Additional Amounts on any of the Notes when it becomes due and payable and the continuance of any such failure for 30 days;
- (2) failure by the Bank to pay the principal on any of the Notes when it becomes due and payable, whether at stated maturity or otherwise and the continuance of any such failure for seven days;
- (3) failure by the Bank to observe or perform any covenant, term, warranty or obligation contained in the Indenture or the Notes, and the continuance of such failure for 60 days after written notice of such default has been given to the Bank by the Trustee or to the Bank by the Holders (with a copy to the Trustee) of at least 25% in aggregate principal amount of the Notes outstanding specifying such default and requiring it to be remedied and stating that such notice is a "Notice of Default";

- (4) the occurrence, with respect to any Indebtedness of the Bank or any of its Significant Subsidiaries and having an outstanding principal amount of US\$30,000,000 or more in the aggregate, of (a) an event of default that results in such Indebtedness being accelerated prior to its scheduled maturity or (b) failure to make any principal payment of such Indebtedness when due and such defaulted payment is not made, waived or extended within any applicable grace period;
- (5) any final judgment or judgments of a court or courts of competent jurisdiction shall be rendered against the Bank or any of its subsidiaries for the payment of money in excess of US\$30,000,000 in the aggregate (or the equivalent thereof, as of any date of determination, in any other currency) and any one or more of such judgments exceeding such amount in the aggregate shall not be paid (whether in full or in installments in accordance with the terms of the judgment), discharged or execution thereof stayed pending appeal, within 60 days after entry thereof, or, in the event of such a stay, such judgment or judgments shall not be discharged within 60 days after such stay expires;
- (6) a resolution by any Bank Regulatory Authority is issued with respect to the Bank, ordering the taking of administrative and operating control, reorganization, voluntary liquidation or forceful liquidation of the Bank under Panamanian laws and regulations, and 60 days have passed since any such initial measure was taken and it, or a similar measure, remains in effect;
- (7) any proceeding is instituted by or against the Bank or any of its Significant Subsidiaries seeking to adjudicate the Bank or any of its Significant Subsidiaries bankrupt or insolvent, or seeking the liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of any Indebtedness, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for the Bank or any of its Significant Subsidiaries or for any substantial part of the Bank's property or any of its Significant Subsidiaries' property, under any applicable law, and, in the case of any of the foregoing actions instituted against the Bank or any of its Significant Subsidiaries, such proceeding or action is not dismissed or discharged and remains in effect for 60 days; or the Bank or any of its Significant Subsidiaries take corporate action to authorize any of the actions set forth in this clause (7); and
- (8) any event occurs that, under the laws of any jurisdiction or any political subdivision of any jurisdiction, has an effect similar to any of the events referred to in clauses (6) through (8), inclusive.

If the Bank fails to make payment of principal of or interest or Additional Amounts, if any, on the Notes (and, in the case of payment of principal, such failure to pay continues for seven days or, in the case of payment of interest or Additional Amounts, such failure to pay continues for 30 days), each Holder has the right to demand and collect under the Indenture and the Bank will pay to the Holders the applicable amount of such due and payable principal, accrued interest and Additional Amounts, if any, on the Notes.

The Trustee will not be charged with knowledge of any Default or Event of Default or knowledge of any cure of any Default or Event of Default unless written notice of such Default or Event of Default has been given to an authorized officer of the Trustee with direct responsibility for the Indenture by the Bank or any Holder.

### **Consequences of an Event of Default**

If an Event of Default (other than an Event of Default described in clauses (6) through (8) above under “— Events of Default”) shall have occurred and be continuing, either the Trustee or the Holders of at least 25% in aggregate principal amount of the outstanding Notes, by written notice to the Bank (and to the Trustee if notice is given by the Holders), may declare the principal amount of (and interest and Additional Amounts on) all the Notes to be due and payable immediately. If an Event of Default described in clauses (6) through (8) above under “— Events of Default” shall have occurred, the principal of all outstanding Notes, the accrued interest and Additional Amounts, if any, shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. The Notes owned by the Bank or any of its affiliates shall be deemed not to be outstanding for, among other purposes, declaring the acceleration of the maturity of the Notes.

If the Bank cures all Events of Default or such Events of Default have been waived (except the nonpayment of principal of and accrued interest or premium and Additional Amounts on the Notes) and certain other conditions are met, such declaration may be rescinded and annulled by the Holders of not less than a majority in aggregate principal amount of the outstanding Notes.

In the event of any Event of Default specified in clause (4) above, such Event of Default and all consequences thereof shall be annulled, waived and rescinded, automatically and without any action by the Trustee or the Holders, if within 60 days after the Bank or its Significant Subsidiaries received notice of such acceleration or failed to make a principal payment, and before the entering of any judgment:

- (1) the Indebtedness that is the basis for such Event of Default has been discharged;
- (2) the holders thereof have rescinded, annulled or waived the acceleration, notice or action (as the case may be) giving rise to such Event of Default; or
- (3) the default that is the basis for such Event of Default has been cured.

In case an Event of Default will occur or be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the Holders, unless such Holders shall have offered to the Trustee reasonable security or indemnity. Subject to such provision for indemnification, the Holders of a majority in principal amount of the outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to the Notes; *provided* that the Trustee shall have the right to decline to follow any such direction if the Trustee shall determine that the action so directed conflicts with any law or the provisions of the Indenture or if the Trustee shall determine that such action would be prejudicial to Holders not taking part in such direction, such action may not be lawfully taken or such action would subject the Trustee to personal liability.

No Holder shall have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless:

- such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Notes;
- the Holders of not less than 25% in principal amount of the outstanding Notes shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee thereunder;
- such Holder or Holders have offered to the Trustee an indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;
- the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the outstanding Notes,

it being understood and intended that no one or more of such Holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under the Indenture, except in the manner therein provided and for the equal and ratable benefit of all such Holders.

Notwithstanding any other provision of the Indenture, the Holder of any Note shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and interest and Additional

Amounts, if any, on such Note and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

Book-entry and other indirect beneficial owners of Notes should consult their bank or brokers for information on how to give notice or direction to or make a request of the Trustee and how to declare or cancel an acceleration of the maturity.

### **Satisfaction and Discharge**

The Indenture will be discharged and will cease to be of further effect (except as to rights of registration of transfer or exchange of Notes, which shall survive until all Notes have been canceled, and the rights, privileges, protections and indemnities of the Trustee) as to all outstanding Notes when:

- (1) either:
  - (a) all the Notes that have been authenticated and delivered (except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust or segregated and held in trust by the Bank and thereafter repaid to the Bank or discharged from this trust) have been delivered to the Trustee for cancellation; or
  - (b) all Notes not delivered to the Trustee for cancellation otherwise have become due and payable or will become due and payable within one year (whether at the scheduled maturity or pursuant to a notice of redemption that has been irrevocably given by the Bank) and the Bank has irrevocably deposited or caused to be deposited with the Trustee trust funds in trust in an amount of money sufficient to pay and discharge the entire indebtedness (including all principal and accrued interest) on the Notes not theretofore delivered to the Trustee for cancellation on the scheduled maturity date or redemption date;
- (2) the Bank has paid all sums payable by it under the Indenture; and
- (3) the Bank has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at maturity or upon redemption.

In addition, the Bank must deliver an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent to satisfaction and discharge have been complied with.

### **Transfer and Exchange**

The Notes have not been registered under the Securities Act and are subject to restrictions on transfer. See "Transfer Restrictions."

### **Purchase of Notes**

The Bank may at any time purchase Notes at any price in the open market, in privately negotiated transactions or otherwise. Notes so purchased by the Bank may be held, resold in accordance with the Securities Act or any exemption therefrom or surrendered to the Trustee for cancellation.

### **Amendment, Supplement and Waiver**

Subject to certain exceptions, the Indenture or the Notes may be amended with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding (including any Additional Notes), and any existing Default under, or compliance with any provision of, the Indenture may be waived (other than any continuing Default in the payment of the principal or interest on the Notes) with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of a majority in

aggregate principal amount of the Notes then outstanding (including any Additional Notes); *provided* that without the consent of each Holder affected, no amendment or waiver may:

- (1) reduce, or change the maturity of, the principal of any Note;
- (2) reduce the rate of or extend the time for payment of interest on any Note;
- (3) change the currency or place of payment of principal of or interest on the Notes;
- (4) modify or change any provision of the Indenture (including the covenants in the Indenture) in a manner that adversely affects the Holders;
- (5) reduce the percentage of Holders necessary to consent to an amendment or waiver to the Indenture or the Notes;
- (6) impair the rights of Holders to receive payments of principal of or interest on the Notes; or
- (7) make any change in these amendment and waiver provisions.

Notwithstanding the foregoing, the Bank and the Trustee may amend the Indenture or the Notes without the consent of any Holder to:

- (1) cure any ambiguity, defect or inconsistency;
- (2) provide for uncertificated Notes in addition to or in place of certificated Notes;
- (3) provide for the assumption of the Bank's obligations in the case of a consolidation, merger, sale, lease, conveyance or transfer of all or substantially all of the assets in accordance with "*Certain Covenants—Mergers, Consolidations, etc.*";
- (4) make any change that would provide any additional rights or benefits to the Holders or that does not adversely affect the legal rights of any Holder under the Indenture in any material respect;
- (5) conform the text of the Indenture or the Notes to any provision in this "Description of the Notes"; or
- (6) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture.

#### **No Personal Liability of Directors, Officers, Employees or Stockholders**

No director, Officer, employee, incorporator or stockholder of the Bank will have any liability for any obligations of the Bank under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the federal securities laws. It is the view of the SEC that this type of waiver is against public policy.

#### **Concerning the Trustee**

The Bank of New York Mellon is the Trustee under the Indenture and has been appointed by the Bank as Registrar, Transfer Agent and Paying Agent with regard to the Notes. If the Bank appoints any other paying agent, such additional and successor paying agent will be a bank or financial institutions domiciled outside of Panama. The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Bank, to obtain payment of claims in certain cases, or to realize on certain assets received in respect of any such claim as

security or otherwise. The Trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest (as defined in the Indenture), it must eliminate such conflict or resign.

The Holders of a majority in principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that, in case an Event of Default occurs and is not cured, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in similar circumstances in the conduct of his own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to the Trustee.

### **Unclaimed Amounts**

Any money deposited with the Trustee or paying agent or held by the Bank, in trust, for the payment of principal, premium, interest or any Additional Amounts that remains unclaimed for two years after such amount becomes due and payable shall, upon written request therefore to the Trustee (if held by the Trustee), be paid to the Bank or its requestor or, if held by the Bank, shall be discharged from such trust. The Holder will look only to the Bank for payment thereof, and all liability of the Trustee, paying agent or of the Bank shall thereupon cease. However, the Trustee or the paying agent may at the expense of the Bank cause to be published once in a newspaper in each place of payment, or to be mailed to Holders, or both, notice that the money remains unclaimed and any unclaimed balance of such money remaining, after a specified date, will be repaid to the Bank.

### **No Sinking Fund**

The Notes will not be entitled to the benefit of a sinking fund.

### **Listing**

In the event that the Notes are listed on the SGX-ST, the Bank will use its reasonable best efforts to maintain such listing, *provided* that the Bank may delist the Notes from the SGX-ST in accordance with the rules of the SGX-ST and seek an alternative admission to listing, trading and/or quotation for the Notes by such other listing authority, stock exchange and/or quotation system as the Bank may decide. Although the Bank cannot assure you as to the liquidity that may result from a listing on the SGX-ST, delisting the Notes from the SGX-ST may have a material effect on the ability of Holders of the Notes to resell the Notes in the secondary market.

### **Governing Law**

The Indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York, except that the authorization and execution of such documentation by the Bank will be governed by the laws of Panama.

### **Currency Rate Indemnity**

The Bank has agreed that, if a judgment or order made by any court for the payment of any amount in respect of the Indenture or any Notes is expressed in a currency other than U.S. dollars, the Bank will indemnify the relevant Holder and the Trustee against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from the Bank's other obligations under the Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the Notes.

## Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms.

“*amend*” means to amend, supplement, restate, amend and restate or otherwise modify; and “*amendment*” shall have a correlative meaning.

“*asset*” means any asset or property.

“*Bank Regulatory Authority*” means the Superintendency of Banks or any other relevant bank regulatory authority of Panama.

“*Banking Law*” means the Decree Law No. 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008 and compiled in a single text by Executive Decree No. 52 of April 30, 2008, and all regulations and accords issued thereunder governing banking institutions in Panama, as amended.

“*Business Day*” means a day other than a Saturday, Sunday or other day on which banking institutions in New York City or Panama City, Panama, are authorized or required by law to close.

“*Default*” means (1) any Event of Default or (2) any event, act or condition that, after the giving of notice or the passage of time or both, would be an Event of Default.

“*Holder*” means any registered holder, from time to time, of the Notes.

“*IFRS*” means the International Financing Reporting Standards as adopted by the International Accounting Standards Board.

“*Indebtedness*” means, with respect to any Person, (i) money borrowed and premiums (if any) and accrued interest in respect thereof, (ii) liabilities under or in respect of any acceptance or credit, (iii) the principal and premium (if any) and any accrued and unpaid interest in respect of any bonds, notes, debentures, debenture stock, loan stock, certificates of deposit or other securities whether issued for cash or in whole or in part for a consideration other than cash, (iv) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable in the ordinary course of business), and (v) guarantees and other contingent obligations in respect of Indebtedness referred to in clauses (i) through (iv) above.

“*interest*” means, with respect to the Notes, interest on the Notes.

“*Obligation*” means any principal, interest, penalties, fees, indemnification, reimbursements, costs, expenses, damages and other liabilities payable under any Indebtedness.

“*Officer*” means any of the following of the Bank: the Chairman of the board of directors, the Chief Executive Officer, the Chief Financial Officer, the President, any Vice President, the Treasurer or the Secretary, or their correlatives under Panamanian law.

“*Officers’ Certificate*” means a certificate signed by two Officers.

“*Opinion of Counsel*” means an opinion from legal counsel who is reasonably acceptable to the Trustee. The legal counsel may be an employee of or counsel to the Bank or any subsidiary of the Bank.

“*Person*” means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof or other entity of any kind.

“*principal*” means, with respect to the Notes, the principal of and premium, if any, on the Notes.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Securities Act*” means the U.S. Securities Act of 1933, as amended.

“*Significant Subsidiaries*” means the “significant subsidiaries” of the Bank pursuant to Rule 1-02 of Regulation S-X.

“*Superintendency of Banks*” means the Panamanian Superintendency of Banks (*Superintendencia de Bancos de Panamá*) or any other relevant bank authority.

“*Tax*” means any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other liabilities related thereto).

“*Taxing Authority*” means any government or political subdivision or territory or possession of any government or any authority or agency therein or thereof having power to tax.

## ISSUANCE, FORM AND DENOMINATION

### ***General***

The Notes are being offered and sold in this initial offering (1) in the United States solely to investors that are QIBs under Rule 144A under the Securities Act or (2) in offshore transactions, as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following this offering, the Notes may be sold:

- to investors that are QIBs under Rule 144A;
- in offshore transactions outside the United States in reliance on Regulation S; and
- under other exemptions from, or in transactions not subject to, the registration requirements of the Securities Act, so long as any such transferee that is a U.S. person is also a Qualified Purchaser, as described under “Transfer Restrictions.”

The Notes will be issued on the Issue Date only against payment in full in immediately available funds. The Notes will be issued in registered form without interest coupons. No Notes will be issued in bearer form. The Notes will be issued in minimum denominations of US\$200,000 and in integral multiples of US\$1,000 in excess thereof.

### ***Book-Entry, Delivery and Form***

Notes offered and sold to QIBs in reliance on Rule 144A under the Securities Act will be represented by a single, permanent global note in definitive, fully registered form (the “Restricted Global Note”) which will be registered in the name of a nominee of DTC and deposited on behalf of the purchasers of the Notes represented thereby with a custodian for DTC for credit to the respective accounts of such purchasers (or to such other accounts as they may direct) at DTC.

Notes offered and sold in reliance on Regulation S will be represented by a single, permanent global note in definitive, fully registered form (the “Regulation S Global Note” and, together with the Restricted Global Note, the “Global Notes”) which will be registered in the name of a nominee of DTC and deposited on behalf of the purchasers of the Notes represented thereby with a custodian for DTC for credit to the respective accounts of such purchasers (or to such other accounts as they may direct) at DTC.

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor or its nominee. Beneficial interests in the Global Notes may not be exchanged for Notes in certificated form except in the limited circumstances described below. See “—*Exchange of Global Notes for Certificated Notes.*”

The Notes (including beneficial interests in the Global Notes) will be subject to certain restrictions on transfer and will bear restrictive legends as described under “Transfer Restrictions.” In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants, which may change from time to time.

### ***Depository Procedures***

The following description of the operations and procedures of DTC is provided solely as a matter of convenience. These operations and procedures are solely within the control of DTC and are subject to changes from time to time. Neither the Bank nor the Trustee, nor any of their respective agents, takes any responsibility for these operations and procedures and urges investors to contact DTC or its participants directly to discuss these matters.

The Bank understands that DTC is a limited purpose trust company organized under the laws of the State of New York, a “banking organization” within the meaning of New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a

“clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. The Issuer further understands that DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and certain other organizations (“Participants”). The Issuer further understands that indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (“Indirect Participants”).

Persons who are not DTC Participants may beneficially own securities held by or on behalf of DTC only through the DTC Participants or the Indirect DTC Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the DTC Participants and the Indirect DTC Participants. DTC has also advised the Issuer that, pursuant to procedures established by it, (i) upon deposit of the Global Notes, DTC will credit the accounts of the DTC Participants designated by the Initial Purchaser with portions of the face amount of the Global Notes and (ii) ownership of such interests in the Global Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the DTC Participants) or by the DTC Participants and the Indirect DTC Participants (with respect to other owners of beneficial interests in the Global Notes).

Except as described below, owners of interests in the Global Notes will not have Notes registered in their names, will not receive physical delivery of Notes in certificated form and will not be considered the registered owners or Noteholders thereof under the Indenture for any purpose.

Payments in respect of the principal, interest (each as defined under “*Description of the Notes*”) or other amounts on the Global Notes will be payable to DTC (or its nominee) in its capacity as the registered holder under the Indenture. Under the terms of the Indenture, the Bank, the Trustee and the agents appointed pursuant to the Indenture will treat the persons in whose names the Notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Consequently, none of the Bank, the Trustee or any agent of any of the same has or will have any responsibility or liability for (i) any aspect of DTC’s records or any DTC Participant’s or Indirect DTC Participant’s records relating to, or payments made on account of, beneficial interest in the Global Notes, or for maintaining, supervising or reviewing any of DTC’s records or any DTC Participant’s or Indirect DTC Participant’s records relating to the beneficial interests in the Global Notes or (ii) any other matter relating to the actions and practices of DTC or any DTC Participants or Indirect DTC Participants. DTC has advised the Bank that its current practice, upon receipt of any payment in respect of securities such as the Global Notes (including payment of the principal and interest), is to credit the accounts of the relevant DTC Participants with the payment on each Note Payment Date, in amounts proportionate to their respective holdings in the principal of beneficial interest in the relevant security as shown on the records of DTC or its nominee unless DTC has reason to believe it will not receive payment on such Note Payment Date. Payments by the DTC Participants and the Indirect DTC Participants to the beneficial owners of Notes will be governed by standing instructions and customary practices and will be the responsibility of the DTC Participants or the Indirect DTC Participants and will not be the responsibility of DTC, the Bank or the Trustee. None of the Bank, the Trustee or any of their respective agents will be liable for any delay by DTC or any DTC Participants in identifying the beneficial owners of the Notes, and the Bank may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all such purposes.

Subject to the transfer restrictions set forth under “Transfer Restrictions,” transfers between DTC Participants will be effected in accordance with DTC’s procedures, and will be settled in same-day funds.

Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Transfers by an owner of a beneficial interest in the Restricted Global Note to a transferee who takes delivery of such interest through the Regulation S Global Note will be made only upon receipt by the Trustee of a certification from the transferor in the form provided in the Indenture to the effect that such transfer is being made in accordance with Regulation S. Any beneficial interest in a Global Note that is transferred to a person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to have an interest in the first

Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note.

Subject to compliance with the transfer restrictions applicable to the Notes, the Bank understands that crossmarket transfers between DTC Participants, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such crossmarket transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels or Luxembourg time, respectively). The Issuer understands that Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to the depositories of Clearstream or Euroclear.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Restricted Global Note from a DTC Participant will be credited during the securities settlement processing day immediately following the DTC settlement date, and such credit will be reported to the relevant Euroclear or Clearstream participant on such business day following the DTC settlement date. Cash received in Euroclear or Clearstream as a result of sales of interests in the Regulation S Global Note by or through a Euroclear or Clearstream participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

The Issuer expects that DTC will take any action permitted to be taken by a Noteholder only at the direction of the Participant to whom interests in the applicable Global Notes are credited and only in respect of the aggregate principal amount of Notes as to which such Participant has given such direction. Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants, they are under no obligation to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, the Trustee or any paying agent will have any responsibility for the performance by Participants or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

#### ***Exchange of Global Notes for Certificated Notes***

A Global Note is exchangeable for Notes in certificated form in accordance with the terms of the Indenture only if an Event of Default has occurred and is continuing under the Notes or if DTC notifies the Bank that it is unwilling or unable to continue as depository for the Global Notes or that it has ceased to be a clearing agency registered under Section 17A of the Exchange Act and, in either case, the Issuer thereupon fails to appoint a successor depository within 90 calendar days after the date of such notice. In all cases, certificated Notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of DTC (in accordance with its customary procedures). Such certificated Notes will bear the restrictive legends referred to under “*Transfer Restrictions*,” and will be subject to the transfer restrictions referred to in such legends, unless the Issuer determines otherwise in compliance with applicable law.

#### **Replacement, Transfer and Exchange**

If any Note at any time is mutilated, defaced, lost, destroyed or stolen, then on the terms set forth in the Indenture, such Note may be replaced at the cost of the applicant (including legal fees and expenses of the Bank, the Trustee, and any agent appointed pursuant to the Indenture) at the office of the Trustee. The applicant for a new Note will, in the case of any mutilated or defaced Note, surrender such Note to the Trustee and, in the case of any lost, destroyed or stolen Note, furnish evidence satisfactory to the Trustee of such loss, destruction or theft and, in each case, furnish evidence satisfactory to the Bank of the ownership and authenticity of a Note together with such indemnity as the Trustee and the Bank may require.

Initially, the Trustee will act as the note registrar and Notes may be presented for registration of transfer and exchange at the offices of the note registrar with a written instruction of transfer in form satisfactory to the note registrar, duly executed by such Holder of the Notes or by such Holder's attorney, duly authorized in writing. Such Holder of the Notes will also provide a written certificate to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "*Transfer Restrictions*." The registered Holder of a Note will be treated as its owner for all purposes.

## TAXATION

*Persons considering the purchase, ownership or disposition of Notes should consult their own tax advisors concerning the tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.*

The following discussion summarizes certain Panamanian and U.S. federal income tax considerations that may be relevant to you if you purchase, own or sell the Notes. This summary is based on laws, regulations, rulings and decisions now in effect in each of these jurisdictions, including any relevant tax treaties. Any change could apply retroactively and could affect the continued validity of this summary.

**This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules.**

You should consult your tax advisor about the tax consequences of acquiring, holding and disposing of the Notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local or other tax laws.

### **Panamanian Tax Considerations**

The following is a summary of the principal Panamanian income, stamp and certain other tax consequences in Panama resulting from the beneficial ownership and disposition of the Notes by certain investors. This summary is based on the Panamanian Tax Code of 1956, as amended, and other applicable tax laws, decrees and regulations promulgated thereunder, interpretative rulings issued by tax authorities, and judicial decisions, all as in effect on the date hereof. This summary is subject to changes in these laws, decrees, regulations, rulings, and judicial decisions occurring after the date hereof, possibly with retroactive effect.

This summary is intended as a descriptive summary only and is not a complete analysis or listing of all potential Panamanian income, stamp and other tax consequences to noteholders. In particular, this summary does not address the tax treatment of investors that may be subject to special tax regimes or tax treaties. This summary is not intended as tax advice to any particular investor, nor does it purport to furnish information in the level of details as, or with attention to, an investor's specific circumstances that would be provided by an investor's own tax advisor. Prospective purchasers of Notes are urged to consult their own tax advisors as to the precise Panamanian and other tax consequences of acquiring, owning, and disposing of the Notes.

For purposes of this summary, the term "Local Holder" means a beneficial owner of a note that (i) in the case of a legal entity, is organized or registered as a branch in Panama and whose management and direction are materially exercised in Panama, (ii) in the case of an individual, spends more than 183 days in any fiscal year (or the year before) in Panama or has his or her permanent home (*i.e.*, center of economic or family interests) in Panama or (iii) otherwise is deemed to have a permanent establishment in Panama as to a specific business enterprise. A "Foreign Holder" means a beneficial owner of a note that is not a Local Holder. A "Foreign Financial Institution" is a bank or a financial institution established outside of Panama.

#### *Taxation of Interest*

Interest paid on the Notes to a Foreign Holder are exempt from income tax and withholding requirements in Panama, if such interests are paid by us to a Foreign Financial Institution whether (i) in its capacity as a noteholder or (ii) in its capacity as paying agent or Trustee for the benefit of Foreign Holders of the Notes. Pursuant to current Panamanian law, The Bank of New York Mellon is a Foreign Financial Institution.

Interest on the Notes paid by us to a Foreign Holder, other than as described above, is subject to income tax and withholding requirements in Panama. In this case, the income tax to be withheld is the amount that results from multiplying 50% of the interest payment by the applicable ordinary income tax rate. Ordinary income tax rates are 25% for corporations and range from 15% to 25% for individuals.

Interest on the Notes paid by us to a Local Holder must be recognized as gross taxable income in the Local Holder's annual income tax return and are taxed at the applicable ordinary income tax rates described above.

#### *Taxation of Dispositions*

Capital gains realized on the sale or other dispositions of the Notes by a Foreign Holder are not subject to income or capital gains tax in Panama if the transfer and delivery of the Notes, and the payment thereof, occur outside of Panama (a "Foreign Transaction"). If the sale or other disposition of the Notes does not qualify as a Foreign Transaction, or is made by a Local Holder, capital gains realized in connection therewith are subject to 10% income tax on capital gain, *provided* that the buyer is obligated to withhold 5% of the purchase price and tender such amount to the tax authorities within the following 10 business days, as an advance on the seller's capital gains tax payment. Nevertheless, at the seller's option, the amount withheld will satisfy the tax obligation even if it is less than 10% of the capital gain. If the amount withheld exceeds 10% of the capital gain, the seller has the option to file a tax return and claim a tax credit or a refund of such excess.

Losses recognized on the sale or other dispositions of the Notes are generally disallowed as deductions for income tax purposes in Panama.

#### *Stamp and Other Taxes*

There are no other stamp, transfer or inheritance taxes applicable to the issue, transfer or other disposition of the Notes. For stamp tax purposes, the Notes are deemed to be bonds (*bonos*) under Panamanian law.

#### *Foreign Investors*

A Foreign Holder is not required to file a tax return in Panama, solely by reason of his or her ownership, sale or disposition of the Notes.

### **United States Federal Income Tax Considerations**

This section describes the material United States federal income tax consequences of owning the Notes we are offering. It applies to you only if you acquire Notes in the offering and you hold your Notes as capital assets for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person that owns Notes that are a hedge or that are hedged against interest rate risks,
- a person that owns Notes as part of a straddle or conversion transaction for tax purposes,
- a person that purchases or sells Notes as part of a wash sale for tax purposes, or
- a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

If a partnership holds the Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Notes should consult its tax advisor with regard to the United States federal income tax treatment of an investment in the Notes.

### **United States Holders**

This subsection describes the tax consequences to a United States holder. You are a United States holder if you are a beneficial owner of a Note and you are:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

**Change of Control Offer.** Following the occurrence of a Change of Control, holders of the Notes will have the right, subject to certain conditions, to require us to repurchase the Notes at a purchase price equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest, if any, to the date of repurchase. See "*Description of the Notes—Change of Control Offer.*" However, under applicable U.S. Treasury regulations, the possibility of one or more contingent payments on the Notes may be disregarded for the purposes of determining whether the Notes provide for one or more contingent payments for United States federal income tax purposes if on the date the Notes are issued the possibility of such contingent payments occurring is remote. We believe (and we intend to take the position for tax purposes) that the possibility that a Change of Control will occur is a remote contingency, and therefore we believe that any additional interest that is payable upon the repurchase of the Notes following a Change of Control Offer will be taxable to United States holders only at the time the interest accrues or is received in accordance with each such holder's method of accounting. The discussion below assumes that this position will be respected for tax purposes.

**Payments of Interest.** You will be taxed on interest on your Note (including any Additional Amounts) as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes.

You must include any tax withheld from the interest payment as ordinary income even though you do not in fact receive it. Interest paid by the Bank on the Notes and any Additional Amounts paid with respect to withholding tax on the Notes, including withholding tax on payments of such Additional Amounts, is income from sources outside the United States for purposes of the rules regarding the foreign tax credit allowable to a United States holder and will, depending on your circumstances, be either "passive" or "general" income for purposes of computing the foreign tax credit. In addition, any Panamanian taxes on interest income from a Note may be eligible for credit against your United States federal income tax liability (or for deduction against your United States taxable income), subject to generally applicable limitations and conditions. However, to the extent a refund of the tax withheld is available to you under Panamanian law, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability. The rules governing foreign tax credits are complex and, therefore, you should consult your own tax advisors regarding the availability of foreign tax credits in your particular circumstances.

**Purchase, Sale and Retirement of the Notes.** Your tax basis in your Note generally will be its cost. You will generally recognize capital gain or loss on the sale or retirement of your Note equal to the difference between

the amount you realize on the sale or retirement, excluding any amounts attributable to accrued but unpaid interest (which will be treated as interest payments), and your tax basis in your Note. Capital gain of a noncorporate United States holder is generally taxed at preferential rates where the property is held for more than one year. Gain or loss, if any, generally will be U.S.-source for purposes of computing your foreign tax credit limitation. If your disposition of a Note is subject to Panamanian tax, you may be entitled to a foreign tax credit or deduction in respect of such tax, but may not be able to use any such credit, unless you recognize other foreign source income that is available under the foreign tax credit limitation rules. In addition, to the extent a refund of the tax withheld is available to you under Panamanian law, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability. You should consult your tax advisors regarding the creditability or deductibility of any such Panamanian tax.

**Medicare Tax.** A United States holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the United States holder's "net investment income" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year and (2) the excess of the United States holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000, depending on the individual's circumstances). A holder's net investment income generally includes its interest income and its net gains from the disposition of Notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a United States holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the Notes.

#### **Information with Respect to Foreign Financial Assets**

Owners of "specified foreign financial assets" with an aggregate value in excess of \$50,000 (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. "Specified foreign financial assets" may include financial accounts maintained by foreign financial institutions, as well as the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts that have non-United States issuers or counterparties, and (iii) interests in foreign entities. Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Notes.

#### **Backup Withholding and Information Reporting**

If you are a noncorporate United States holder, information reporting requirements, on Internal Revenue Service ("IRS") Form 1099, generally would apply to payments of principal and interest on a Note within the United States, and the payment of proceeds to you from the sale of a Note effected at a United States office of a broker.

Additionally, backup withholding may apply to such payments if you fail to comply with applicable certification requirements (in the case of interest payments) or are notified by the IRS that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

Payment of the proceeds from the sale of a Note effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation are sent to the United States or (iii) the sale has certain other specified connections with the United States.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the IRS.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a Purchase Agreement among the Issuer and the Initial Purchasers, the Issuer has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from the Issuer, the principal amount of Notes set forth opposite their name below:

<b>Initial Purchasers</b>	<b>Principal Amounts of Notes</b>
J.P Morgan Securities LLC.....	US\$250,000,000
Morgan Stanley & Co. LLC .....	US\$250,000,000
Total .....	<b>US\$500,000,000</b>

Subject to the terms and conditions set forth in the Purchase Agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the Purchase Agreement if any of these Notes are purchased. If an Initial Purchaser defaults, the Purchase Agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the Purchase Agreement may be terminated.

We have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officers' certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Valores Banistmo, our subsidiary, is acting as co-manager. Valores Banistmo is not registered under the Exchange Act as a broker-dealer and will not effect any offers or sales of the Notes in the United States. Valores Banistmo may place Notes outside of the United States as an agent for the Initial Purchasers.

### **Offering Terms**

The Initial Purchasers have advised us that they propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed. The Initial Purchasers may offer and sell Notes through certain of their affiliates.

### **Notes Are Not Being Registered**

The Notes have not been registered under the U.S. Securities Act or the securities laws of any other jurisdiction. The Notes are being offered and sold only to QIBs within the meaning of Rule 144A under the Securities Act and in offshore transactions as defined in Regulation S under the Securities Act. Prospective purchasers are hereby notified that the sellers of the Notes may be relying on the exemptions from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfer of the Notes, see "*Transfer restrictions.*"

The Initial Purchasers propose to offer the Notes for resale in transactions pursuant to Rule 144A and Regulation S. The Initial Purchasers will not offer or sell the Notes except to persons they reasonably believe to be qualified institutional buyers or pursuant to offers and sales in offshore transactions within the meaning of Regulation S. The Notes will not be registered for public offering in Panama with, or approved by, the SMV.

## **New Issue of Notes**

The Notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the Notes on any national securities exchange or for inclusion of the Notes on any automated dealer quotation system except that the Issuer intends to apply for the listing and quotation of the Notes on the SGX-ST, although we cannot assure you that an active market for the Notes will develop. We have been advised by the Initial Purchasers that it presently intends to make a market in the Notes after completion of the offering. However, it is under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure you of the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

## **Settlement**

We expect that delivery of the Notes will be made to investors on or about September 19, 2017, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as “T+5”). Under Rule 15c6-1 under the Securities Exchange Act of 1934, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the delivery of the Notes hereunder may be required, by virtue of the fact that the Notes initially settle in T+5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

## **No Sales of Similar Securities**

We have agreed that we will not, for a period of 45 days after the date of this offering memorandum, without first obtaining the prior written consent of J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC, directly or indirectly, issue, sell, offer to contract or grant any option to sell, pledge, transfer or otherwise dispose of, directly or through a trust, outside Panama, any U.S. dollar denominated debt securities of the Issuer or securities exchangeable for, supported by or convertible into debt securities of the Issuer and having a maturity of greater than one year, except for the Notes sold to the Initial Purchasers pursuant to the purchase agreement and securities subscribed by or sold to an affiliate of the Issuer.

## **Short Positions**

In connection with the offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than it is required to purchase in the offering. The Initial Purchasers must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the Initial Purchasers’ purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

## **Notice to Prospective Investors in the European Economic Area**

In relation to each Relevant Member State, each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Initial Purchasers; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

*provided* that no such offer of Notes shall require the Issuer or the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purpose of the above provisions, the expression “an offer to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in the Relevant Member State.

## **Notice to Prospective Investors in the United Kingdom**

Each Initial Purchaser has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

## **Note to Prospective Investors in Canada**

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, *provided* that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

#### **Notice to Prospective Investors in Chile**

The offer of the Notes will begin on August 31, 2017 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*, or the “SVS”). The Notes being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Notes are not subject to the supervision of the SVS.

As unregistered securities, we are not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

#### **Notice to Prospective Investors in Panama**

The Notes will not be issued under or regulated by the Securities Law (*Ley del Mercado de Valores*) of Panama, nor registered for public offering. Accordingly, (i) the Notes cannot be publicly offered or sold in Panama, except in transactions exempted from registration under the Panamanian Securities Laws, (ii) the Panamanian Superintendence has not reviewed the information contained in this offering memorandum, (iii) the Notes and the offering thereof are not subject to the supervision of the Panamanian Superintendence, and (iv) the Notes do not benefit from the tax incentives provided by Panamanian Securities Laws.

#### **Notice to Prospective Investors in Peru**

The Notes and the information contained in this offering memorandum are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to the offering of the Notes and therefore, the disclosure obligations set forth therein will not be applicable to the Issuer or the sellers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this offering memorandum have not been and will not be reviewed, confirmed, approved or in any way submitted to the Securities Market Superintendence (*Superintendencia del Mercado de Valores*) (the “Peruvian SMV”) –the Peruvian capital market regulator– nor have they been registered with the Peruvian SMV’s Securities Market Public Registry (*Registro Público del Mercado de Valores*). Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian law and regulations and complies with the provisions on private offerings set forth therein.

#### **Notice to Prospective Investors in Colombia**

The Notes may not be offered, sold or negotiated in Colombia, except under circumstances which do not constitute a public offering of securities under applicable Colombian securities laws and regulations. Furthermore, foreign financial entities must abide by the terms of Decree 2555 of 2010 to offer privately the Notes to their Colombian clients.

#### **Notice to Prospective Investors in Japan**

The Notes have not been and will not be registered pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act. Accordingly, none of the Notes nor any interest therein may be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any “resident” of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws, regulations and ministerial guidelines of Japan in effect at the relevant time.

## **Notice to Prospective Investors in Singapore**

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

## **Notice to Prospective Investors in Hong Kong**

Each Initial Purchaser (i) has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under that Ordinance.

## **Other Relationships**

The Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. Certain of the Initial

Purchasers or their respective affiliates will receive a portion of the net proceeds from this offering applied to amounts outstanding on our 2014 syndicated credit agreement to which they and we are party. As of June 30, 2017, US\$400 million, with an interest rate of 3.00% per annum and a maturity of October 6, 2017, was outstanding under our 2014 syndicated credit agreement. The lenders under the credit agreement include affiliates of J.P. Morgan Securities LLC. We expect to use a portion of the net proceeds from this offering to repay a portion of our outstanding indebtedness, which may include a portion of the indebtedness we owe to certain of the Initial Purchasers or their affiliates.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to customers that they acquire, long and/or short positions in such securities and instruments.

## TRANSFER RESTRICTIONS

The Notes have not been registered, and will not be registered, under the Securities Act or any state securities laws, and the Notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act.

Accordingly, the Notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A under the Securities Act; and
- outside of the United States in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

### **Purchasers' Representations and Restrictions on Resale and Transfer**

The Notes are subject to restrictions on transfer as set forth below. By purchasing Notes you will be deemed to have made the following acknowledgements, representations to and agreements with the Initial Purchasers and us:

1. You acknowledge that:
  - a. the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
  - b. unless so registered, the Notes may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf and that either:
  - a. you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the Initial Purchasers are selling the Notes to you in reliance on Rule 144A; or
  - b. you are purchasing Notes in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers have made any representation to you with respect to us or the offering of the Notes, other than the information contained in this offering memorandum. You agree that you have had access to such financial and other information concerning us and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from registration under the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent Holder of the Notes by its acceptance of the Notes

will agree, that until the end of the Resale Restriction Period (as defined below), the Notes may be offered, sold or otherwise transferred only:

- a. to us;
- b. under a registration statement that has been declared effective under the Securities Act;
- c. for so long as the Notes are eligible for resale under Rule 144A, to a person the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom notice is given that the transfer is being made in reliance on Rule 144A;
- d. through offers and sales that occur outside the United States within the meaning of Regulation S under the Securities Act; or
- e. under any other available exemption from the registration requirements of the Securities Act. You also acknowledge that:

- the restrictions set forth herein apply also to holders of beneficial interests in the Notes;
- the above restrictions on resale will apply from the closing date until the date that is one year (in the case of Rule 144A Notes) after the later of the closing date and the last date that we or any of our affiliates was the owner of the Notes or any predecessor of the Notes (the “Resale Restriction Period”), and will not apply after the applicable Resale Restriction Period ends;
- the Trustee will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;
- we and the Trustee reserve the right to require in connection with any offer, sale or other transfer of Notes under clauses (d) and (e) in the legend below the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Bank; and
- each Note will contain a legend substantially to the following effect:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS NOTE, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED NOTES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE, PRIOR TO THE DATE (THE “RESALE RESTRICTION TERMINATION DATE”) THAT IS [IN THE CASE OF RULE 144A NOTES: ONE YEAR] AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF SUCH NOTE), ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT

REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE ISSUER’S AND THE TRUSTEE’S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO THE ISSUER. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

5. You acknowledge that we, the Initial Purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of Notes is no longer accurate, you will promptly notify us and the Initial Purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

6. Each purchaser that is acquiring Notes pursuant to Regulation S under the Securities Act represents that it is not acquiring the Notes with a view to the resale, distribution or other disposition thereof to a U.S. person or in the United States.

### **Clearing Systems**

The Notes have been accepted for trading in book-entry form by DTC. For the Restricted Global Note, the ISIN number is US06034LAA89, the CUSIP number is 06034L AA8 and the Common Code number is 168669496. For the Regulation S Global Note, the ISIN number is USP15383AC95, the CUSIP number is P15383 AC9 and the Common Code number is 168669437.

### **Listing**

Application will be made to admit the Notes to listing on the SGX-ST.

### **No Litigation**

Except as disclosed herein, we are not involved in any governmental litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes, and we are currently not aware of any threatened governmental litigation or arbitration proceedings.

### **Notices**

All notices to Holders of Global Notes will be given to DTC in accordance with its applicable procedures in effect from time to time. All notices to the registered Holders of non-Global Notes will be mailed or delivered to such holders at their addresses indicated in records maintained by the registrar. In addition, as long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, all notices to Holders of Notes will be published through the SGX-ST. Any such notice shall be deemed to have been given on the date of such delivery or publication, as the case may be, or in the case of mailing, on the second business day after such mailing. If published on different dates, on the date of the first such publication.



## **INDEPENDENT AUDITORS**

The consolidated Audited Financial Statements of Banistmo S.A. and Subsidiaries as of December 31, 2016, included in this offering memorandum, have been audited by Deloitte Inc., independent auditors, as stated in their report appearing herein. The consolidated audited financial statements of Banistmo S.A. and Subsidiaries as of December 31, 2015 and 2014 included in this offering memorandum have been audited by PWC Panama, Pricewaterhousecoopers S.A., independent auditors, as stated in their reports appearing herein.

## **LEGAL MATTERS**

The validity of the Notes being offered hereby are being passed upon for us by Sullivan & Cromwell LLP, New York, New York and Washington, D.C., and for the Initial Purchasers by Cleary Gottlieb Steen & Hamilton LLP, New York, New York. Matters of Panamanian law are being passed upon for us by Alemán, Cordero, Galindo & Lee, our special Panamanian counsel, and for the Initial Purchasers by Arias, Fábrega & Fábrega, Panamanian counsel for the Initial Purchasers.

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BANISTMO**

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## **Banistmo S.A. and Subsidiaries**

Interim condensed consolidated financial  
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## Banistmo S.A. and Subsidiaries

### Interim condensed consolidated statement of financial position at June 30, 2017 (In Balboas)

	Notes	June 30 2017 (Unaudited)	December 31 2016 (Audited)
<b>Assets</b>			
Cash and cash equivalents	3,9,21,23	856,179,252	945,442,722
Investments in securities	3,10,21,23	760,311,750	735,334,797
Derivatives	11,23	4,181,244	7,670,868
Loans	3,12,21,23,25	7,531,493,118	7,265,873,801
Reserve for loan losses	12	(141,369,278)	(122,124,689)
Loans, net		<u>7,390,123,840</u>	<u>7,143,749,112</u>
Assets held for sale	24	7,054,733	6,495,228
Properties, furniture, equipment and improvements, net of depreciation	13	76,319,709	80,862,644
Goodwill and other intangible assets, net	3,14	75,059,370	75,329,006
Deferred tax	8	36,940,203	35,108,634
Customer's liabilities under acceptances		21,149,118	31,604,204
Other assets	15	127,586,951	112,502,462
Total assets		<u>9,354,906,170</u>	<u>9,174,099,677</u>
<b>Liabilities and Equity</b>			
Liabilities			
Customer deposits	3,21,23	6,335,134,649	6,321,302,299
Interbank deposits	3,21,23	548,190,045	399,210,179
Derivatives	11,23	4,591,787	6,488,118
Borrowings	3,16,21,23	1,193,280,114	1,184,771,659
Outstanding acceptances		21,149,118	31,604,204
Other liabilities	17,21	203,964,311	223,006,163
Total liabilities		<u>8,306,310,024</u>	<u>8,166,382,622</u>
Equity			
Common shares	3,19	11,325,781	11,325,781
Additional paid-in capital	3,19	743,744,192	743,744,192
Reserves	25	97,003,548	94,356,234
Retained earnings		183,033,055	144,037,766
Reserve for valuation of investment securities		26,091,932	24,326,992
Complementary tax		(12,602,362)	(10,073,910)
Total equity		<u>1,048,596,146</u>	<u>1,007,717,055</u>
Total liabilities and equity		<u>9,354,906,170</u>	<u>9,174,099,677</u>

The notes in pages 6 to 64 are an integral part of these interim condensed consolidated financial statements.

## Banistmo S.A. and Subsidiaries

### Interim condensed consolidated statement of profit or loss for the six months ended June 30, 2017

(In Balboas)

		(Unaudited)	
	Notes	2017	2016
Interest and commission income on:			
Loans		232,039,850	206,803,528
Deposits in banks		3,320,209	3,049,150
Securities		12,127,294	12,345,893
Total interest and commission income	21	<u>247,487,353</u>	<u>222,198,571</u>
Interest expense on:			
Deposits		71,926,814	59,930,873
Financing received		16,081,930	13,254,924
Total interest expense	21	<u>88,008,744</u>	<u>73,185,797</u>
Net interest and commission income, before provisions		159,478,609	149,012,774
Provision for impairment in financial asset			
Loans	12	49,803,053	40,599,135
Net interest and commission income, after provisions		<u>109,675,556</u>	<u>108,413,639</u>
Income (expenses) for banking services and others;			
Fees and other commissions	5	49,726,084	41,987,573
Net gain on securities and derivatives	6	4,176,009	1,113,134
Other provisions and impairment	7	6,710,119	(997,669)
Commission expenses	7,21	(18,457,499)	(17,737,794)
Other net income	5	978,802	2,642,216
Total income for banking services and others, net		<u>43,133,515</u>	<u>27,007,460</u>
General and administrative expenses;			
Salaries and other employee costs	7,21	43,019,604	39,601,303
Leases		7,307,646	7,164,109
Advertising and promotion		1,941,080	2,427,256
Fees and professional services		6,935,249	10,022,146
Depreciation and amortization	13,14	8,636,631	10,106,283
Other expenses	7	31,578,493	29,514,777
Total general and administrative expenses		<u>99,418,703</u>	<u>98,835,874</u>
Profit before income tax		53,390,368	36,585,225
Income tax	8	11,747,765	4,532,045
Net profit of the period		<u>41,642,603</u>	<u>32,053,180</u>

The notes in pages 6 to 64 are an integral part of these interim condensed consolidated financial statements.

## Banistmo S.A. and Subsidiaries

### Interim condensed consolidated statement of comprehensive income for the six months ended June 30, 2017

(In Balboas)

		(Unaudited)	
	Notes	2017	2016
Net profit of the period		<u>41,642,603</u>	<u>32,053,180</u>
Other comprehensive income			
Items that can or cannot be reclassified			
to the interim condensed consolidated statement of profit or loss:			
Cash flow hedges:			
Effective portion of changes in the fair value		-	793,501
Reserve for valuation of investment securities:			
Net changes in valuation of securities available for sale		4,421,684	4,585,474
Transfer to profit or loss of change in fair value			
of the hedge item - fair value hedge	6,10	(67,249)	(3,887,090)
Net profit on securities available for sale transferred			
to profit or loss	6,10	<u>(2,589,495)</u>	<u>(1,194,674)</u>
Total of other comprehensive income, net		<u>1,764,940</u>	<u>297,211</u>
Total comprehensive income of the period		<u>43,407,543</u>	<u>32,350,391</u>

The notes in pages 6 to 64 are an integral part of these interim condensed consolidated financial statements.

## Banistmo S.A. and Subsidiaries

### Interim condensed consolidated statement of changes in equity for the six months ended June 30, 2017 (In Balboas)

	Notes	Common shares	Additional paid-in capital	Dynamic equity reserve	Regulatory reserve for foreclosed assets	Regulatory reserve for loans	Actuarial valuation of defined benefits	Reserve for valuation of investment securities	Cash flow hedges	Complementary tax	Retained earnings	Total equity
<b>Balance at December 31, 2015</b>		11,325,781	743,744,192	88,525,106	3,358,455	-	(601,012)	7,110,085	(793,501)	(6,361,542)	101,460,076	947,767,640
Comprehensive income:												
Net profit		-	-	-	-	-	-	-	-	-	32,053,180	32,053,180
Other comprehensive income:												
Cash flow hedges:												
Effective portion of changes in fair value		-	-	-	-	-	-	-	793,501	-	-	793,501
Reserve for valuation of investment in securities:												
Net changes in valuation of securities available for sale		-	-	-	-	-	-	4,585,474	-	-	-	4,585,474
Transfers to profit or loss for the change in fair value of the hedge item - fair value hedge		-	-	-	-	-	-	(3,887,090)	-	-	-	(3,887,090)
Net profit on securities available for sale transferred to profit or loss	6	-	-	-	-	-	-	(1,194,674)	-	-	-	(1,194,674)
Total of other comprehensive income		-	-	-	-	-	-	(496,290)	793,501	-	-	297,211
Total of comprehensive income		-	-	-	-	-	-	(496,290)	793,501	-	32,053,180	32,350,391
Other equity transactions												
Regulatory reserve for foreclosed assets		-	-	-	(664,055)	-	-	-	-	-	664,055	-
Regulatory reserve for loans		-	-	-	-	3,387,041	-	-	-	-	(3,387,041)	-
Dynamic equity reserve		-	-	4,246,283	-	-	-	-	-	-	(4,246,283)	-
Total other equity transactions		-	-	4,246,283	(664,055)	3,387,041	-	-	-	-	(6,969,269)	-
Contributions and distribution to shareholders:												
Complementary tax		-	-	-	-	-	-	-	-	(3,707,988)	-	(3,707,988)
Total contributions and distribution to shareholders		-	-	-	-	-	-	-	-	(3,707,988)	-	(3,707,988)
<b>Balance at June 30, 2016 (Unaudited)</b>		11,325,781	743,744,192	92,771,389	2,694,400	3,387,041	(601,012)	6,613,795	-	(10,069,530)	126,543,987	976,410,043
<b>Balance at December 31, 2016</b>		11,325,781	743,744,192	92,896,149	2,244,067	-	(783,982)	24,326,992	-	(10,073,910)	144,037,766	1,007,717,055
Comprehensive income:												
Net profit		-	-	-	-	-	-	-	-	-	41,642,603	41,642,603
Other comprehensive income:												
Cash flow hedges:												
Reserve for valuation of investment in securities:												
Net changes in valuation of securities available for sale		-	-	-	-	-	-	4,421,684	-	-	-	4,421,684
Transfers to profit or loss of change in fair value of the hedge item - fair value hedge		-	-	-	-	-	-	(67,249)	-	-	-	(67,249)
Net profit on securities available for sale transferred to profit or loss	6	-	-	-	-	-	-	(2,589,495)	-	-	-	(2,589,495)
Total other comprehensive income		-	-	-	-	-	-	1,764,940	-	-	-	1,764,940
Total comprehensive income		-	-	-	-	-	-	1,764,940	-	-	41,642,603	43,407,543
Other equity transactions:												
Regulatory reserve for foreclosed assets		-	-	-	417,453	-	-	-	-	-	(417,453)	-
Dynamic equity reserve		-	-	2,229,861	-	-	-	-	-	-	(2,229,861)	-
Total other equity transactions		-	-	2,229,861	417,453	-	-	-	-	-	(2,647,314)	-
Contributions and distributions to shareholders:												
Complementary tax		-	-	-	-	-	-	-	-	(2,528,452)	-	(2,528,452)
Total contributions and distributions to shareholders		-	-	-	-	-	-	-	-	(2,528,452)	-	(2,528,452)
<b>Balance at June 30, 2017 (Unaudited)</b>		11,325,781	743,744,192	95,126,010	2,661,520	-	(783,982)	26,091,932	-	(12,602,362)	183,033,055	1,048,596,146

## Banistmo S.A. and Subsidiaries

### Interim condensed consolidated statement of cash flows for the six months ended June 30, 2017 (In Balboas)

		(Unaudited)	
	Notes	2017	2016
<b>Operating activities</b>			
Net profit		41,642,603	32,053,180
Adjustments to reconcile net profit and net cash used in operating activities:			
Depreciation	13	6,538,613	7,194,159
Amortization of software, projects and others	14	1,934,317	2,912,124
Loss on disposal of intangible assets	14	163,701	-
Disposal of fixed assets	13	366,349	4,717,710
Provision for loan losses	12	49,803,053	40,599,135
(Reversal) increase in provisions and impairment	7	(6,710,119)	997,669
Net gain on securities and derivatives	6	(4,176,009)	(1,113,134)
Gain in sale of fixed assets		(26,936)	(1,006,332)
Income tax	8	11,747,765	4,532,045
Interest income		(247,487,353)	(222,198,571)
Interest expenses		88,008,744	73,185,797
Changes in operating assets and liabilities:			
Original time deposits over three months		11,051,360	35,509,641
Decrease in restricted time deposits		550,000	-
Securities at fair value with changes in profit or loss		50,029,504	109,642,375
Loans		(284,703,316)	(303,179,286)
Deposits		158,055,252	(156,520,891)
Other assets		(3,998,106)	(11,073,521)
Other liabilities		(36,021,936)	21,305,750
Cash generated from operations			
Interests received		236,836,484	234,471,706
Interests paid		(84,262,412)	(77,606,801)
Taxes paid		(1,872,345)	(1,208,369)
Net cash used in operating activities		(12,530,787)	(206,785,614)
<b>Investing activities</b>			
Purchases of securities available for sale	10	(193,774,957)	(109,875,113)
Sales and redemptions of securities available for sale	10	124,258,877	186,125,275
Acquisition of property and equipment	13	(2,365,926)	(6,722,998)
Sales of property and equipment	13	30,835	3,484,332
Net cash (used in) provided by investing activities		(71,851,171)	73,011,496
<b>Financing activities</b>			
Borrowings received		599,002,933	224,994,339
Repayment of borrowings received		(589,326,396)	(81,060,496)
Complementary tax		(2,528,452)	(3,707,988)
Net cash provided by financing activities		7,148,085	140,225,855
(Decrease) increase in cash and cash equivalents		(77,233,873)	6,451,737
Cash and cash equivalents at the beginning of the period		898,939,808	824,031,204
Cash and cash equivalents at the end of the period	9	821,705,935	830,482,941

The notes in pages 6 to 64 are an integral part of these interim condensed consolidated financial statements.

## 1. Organization

Banistmo S.A. began operations on August 1, 2004, under the laws of the Republic of Panama. The Superintendency of Banks of Panama granted a General Banking License that allows it to perform banking activities in Panama and abroad, as well as any other activities authorized by this Superintendency.

Banistmo S.A. offers directly and through its subsidiaries (jointly, the “Bank”), a wide variety of financial services mainly to companies and individuals. The services offered, in addition to corporate and retail banking, are financial leasing, fiduciary administration of assets, paying agencies, registration and transfer, brokerage services, and securities trading. Most of these activities are subject to supervision by regulatory authorities.

The Bank is wholly-owned by Bancolombia, S.A., which is the ultimate holding company.

Banking operations in the Republic of Panama are regulated by the Superintendency of Banks of Panama, pursuant Executive Decree No. 52 of April 30, 2008, which adopts the single text of Decree Law No. 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008. The Superintendency of Banks of Panama has the authority, among others, to monitor, regulate and inspect banking operations.

Stock exchange operations in Panama are regulated by the Superintendency of Securities Market in accordance with the legislation stated in Decree Law No. 1 of July 8, 1999, amended by Law No. 67 of September 1, 2011, issued by the Superintendency of Securities Market, indicating that they are required to comply with the rules of capital adequacy, solvency ratio, capital fund, liquidity index, concentration of credit risk and structure expenses. In addition, on September 18, 2013, the Superintendency of Securities Market issued Resolution No. 8-2013, which modified certain provisions of Agreement No. 4-2011 of June 27, 2011, on capital adequacy and its modalities.

The main office of Banistmo S.A. is located at Torre Banistmo Building, on Calle 50, Panama, Republic of Panama. As at June 30, 2017, the Bank and its subsidiaries have a total of 2,209 (December 31, 2016: 2,393) employees.

## 2. Significant accounting policies

The accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the last consolidated annual financial statements. Nevertheless, as at June 30, 2017, changes were made in the definition of probability of default for consumer portfolios, as well as changes in the methodology of reserve for mortgage portfolio, aligning our processes to the headquarter standards. The financial impacts of these changes were not material in the results for the period.

### 2.1. Basis of preparation of the interim condensed consolidated financial statements

#### Compliance statement

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard No. 34 “Interim Financial Information”.

IAS 34 does not require disclosure of interim financial information of all the notes included in preparing annual financial statements in accordance with IFRS requirements. Although Management believes that the disclosures included are adequate to ensure that the information is not misinterpreted, the interim consolidated financial information should be read in conjunction with the audited consolidated financial statements of the Bank for the year ended December 31, 2016. The results for operations in the interim periods are not necessarily indicative of the results that can be expected for the full year.

### Use of estimates and critical assumptions

In the preparation of the interim condensed consolidated financial statements, Management has made certain accounting estimates and critical assumptions and has exercised its judgment in the process of applying the accounting policies of the Bank, which affect the application of accounting policies and amounts of assets, liabilities, income, and expenses. Current results could differ from these estimates. Because of this, the estimates and assumptions are constantly reviewed, recognizing said revision in the period in which it is carried out if it affects said period; or in the review period and future periods, if it affects both the current and future periods.

### Basis for presentation

The interim condensed consolidated financial statements are prepared based on historical cost, excluding hedges and available for sale securities that are presented at fair value with changes in comprehensive income; fair and derivative values which are presented at fair value with changes in profit or loss, the securities held to maturity are presented at fair value, and subsequently, at historical cost, and assets and liabilities are presented as held for sale and recognized between the lesser of either its carrying amount or its fair value, less costs to sell.

Those financial assets that have been designated as fair value hedge, adjusted for the changes in fair value assigned to the risk being covered.

### Functional currency and presentation

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

## **2.2. Comparative information**

The information as at June 30, 2017 contained in these interim condensed consolidated financial statements is presented only for purposes of comparison with information relating to the period ended December 31, 2016.

## **2.3. Materiality**

In determining the disclosures to be made on the various items in the interim condensed consolidated financial statements and on other matters, in accordance with IAS 34, the Bank has taken into account its materiality in relation to the interim condensed consolidated financial statements.

## **2.4. Principles of consolidation**

### **2.4.1. Subsidiary**

In accordance with IFRS 10, a subsidiary is an entity controlled by one of the companies that make up the Bank, provided that the latter includes the following elements:

- Power over the investee, which gives it the present capacity to direct its relevant activities that significantly affect its performance.

- Exposure or right to variable returns arising from their participation in the investee.
- Ability to use its power over the investee to influence the investor's yield amounts.

The Bank reassesses whether or not it controls an investee, if the facts and circumstances indicate that there are changes to one or more of the three control elements mentioned above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to unilaterally direct the relevant activities of the investee. The Bank considers all relevant facts and circumstances when assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- The size of the percentage of voting rights of the Bank compared to the size and dispersion of percentages of other voting holders;
- Potential voting rights held by the Bank, other shareholders or other parties;
- Rights from contractual agreements; and
- Any additional fact or circumstance indicating that the Bank has, or does not have, the current ability to direct relevant activities at the time decisions are needed, including voting patterns at previous shareholders' meetings.

Subsidiaries are all entities (including structured entities) over which the Bank has control. Subsidiaries are consolidated from the date control is transferred to the Bank, and are unconsolidated from the date control ceases.

The Bank uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Bank. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. The identifiable assets acquired and the contingent liabilities and liabilities assumed in a business combination are initially measured at their fair values at the acquisition date.

Costs related to the acquisition are recognized as expenses when incurred.

If the business combination is carried out in stages at the acquisition date, the carrying amount of the former stakeholders of the acquiree is re-measured to fair value; any gain or loss resulting from such re-measurement is recognized in profit or loss for the period.

Any contingent consideration to be transferred by the Bank is recognized at its fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration that is considered an asset or liability will be recognized in accordance with IAS 39, either in profit or loss or as a change in comprehensive income. Contingent consideration classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Intercompany transactions, balances and unrealized gains on intercompany transactions are eliminated. Unrealized losses are also eliminated. When necessary, the amounts reported by the subsidiaries have been adjusted to standardize them with the Bank's accounting policies.

Below is a brief description of the most important subsidiaries of Banistmo S.A. domiciled in Panama:

- *Financomer, S.A.* is mainly engaged in granting loans or financing facilities to individuals and corporate businesses. The Bank owns 100% of the issued and outstanding shares of the subsidiary. Financial operations in the Republic of Panama are regulated and supervised by the Ministry of Commerce and Industries through the Directorate of Financial Companies, according to Decree Law No. 42 of July 23, 2001.

According to the Minutes of the General Meeting of Shareholders of Financomer, S.A. dated April 21, 2016, the merger agreement was approved, by which the company merges and absorbs the companies Grupo Financomer, S.A. and Financiera Flash, S.A., surviving Financomer, S.A.

Through Public Deed 11,831 of September 14, 2016, the company Financomer, S.A., absorbed the companies Financiera Flash, S.A. and Grupo Financomer, S.A., which were also part of the subsidiaries that are 100% owned by Banistmo S.A.

- *Banistmo Investment Corporation S.A.* has a fiduciary license granted by the Superintendency of Banks of Panama. The license granted by the Superintendency of Securities Market, as investment administrator, was canceled by Resolution No. 83-14 of February 25, 2014. The subsidiary is mainly engaged in the management of trusts and offers escrow agent services. The Bank owns 100% of the issued and outstanding shares of Banistmo Investment Corporation S.A.
- *Leasing Banistmo S.A.* is mainly engaged in leasing activities. The Bank owns 100% of the issued and outstanding shares of Leasing Banistmo S.A. The financial leasing operations in Panama are regulated by the Directorate of Financial Companies of the Ministry of Commerce and Industries according to the legislation stated in Law No. 7 of July 10, 1990.
- *Valores Banistmo S.A.* (formerly *Valores Bancolombia Panamá, S.A.*) was incorporated in the Republic of Panama on April 6, 2005, and began operations on November 21, 2005. Its main source of business is to carry out financial intermediation and other related services, mainly for international clients.

According to the Board of Directors of Securities Banistmo S.A. of January 21, 2016, it was approved to sign a share purchase agreement with Valores Bancolombia, S.A.

Through Resolution No. 403-16 of June 14, 2016, the Superintendency of the Securities Market authorized the change of 100% control of the common shares issued and outstanding and entitled to vote, of Valores Bancolombia Panamá, S.A., a Panamanian company, from Valores Bancolombia, S.A., the seller and subsidiary of Bancolombia, S.A., to Securities Banistmo S.A., the buyer.

As of July 6, 2016, Securities Banistmo S.A. owned 100% of the shares of Valores Bancolombia Panamá, S.A.

Through Resolution No. 639-16 of September 13, 2016, the Superintendency of the Securities Market authorized the conclusion of the merger agreement between Securities Banistmo S.A. and Valores Bancolombia Panamá, S.A.

Through Public Deed No. 18,691 registered on October 4, 2016, documents evidencing the merger agreement entered into between Valores Bancolombia Panamá, S.A., where it absorbed Securities Banistmo S.A., and as a result of said merger, Valores Bancolombia Panamá, S.A. survives the merger and changes the name of the company to Valores Banistmo S.A.

Hereinafter, Banistmo S.A. will be denominated the “Bank”. All the subsidiaries of the Bank will hereinafter be referred to as the “Subsidiaries”.

In addition, the Bank maintains the following representative offices:

- *Representative Office in Guatemala:* By Resolution No. 507-2009 of July 3, 2009, the representative office of Banistmo S.A. in the Republic of Guatemala was registered with the Superintendency of Banks of Guatemala. This office is in charge of business promotion and financial assistance in the Guatemalan territory.
- Resolution No.0044 of January 14, 2015, issued by the Financial Superintendency of Colombia authorizes promotion and advertisement of the products and services in the Colombian market and to the clients of Banistmo S.A. (an entity from abroad) through its parent company, Bancolombia, S.A.

#### **2.4.2. Investments in subsidiaries**

##### Changes of ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions, that is, as transactions with owners in their condition as such. The difference between the fair value of any consideration paid and the corresponding share acquired of the carrying amount of net assets of the subsidiary is recorded in equity.

##### Disposal of subsidiaries

When the Bank ceases to have control of any retained interest in the entity, its fair value is remeasured at the date when control is lost, with the change in the carrying amount recognized in profit or loss for the period. The fair value is the initial carrying amount for the purposes of posting the retained interest in the associate, joint venture or financial asset. In addition, any amount previously recognized in other comprehensive income in relation to that entity is accounted for as if the Bank had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified as profit or loss.

##### Structured entities

Structured entities (SEs) are entities created to achieve a specific and well-defined objective, such as the securing of specific assets, or the execution of a specific borrowing or lending operation. An SE is consolidated if, based on an assessment of the substance of its relationship with the Bank and the risks and benefits of SE, the Bank concludes that it controls the SE.

The following circumstances may indicate a relationship in which, in essence, the Bank controls, and therefore, consolidates SEs:

- The activities of the SEs are carried out on behalf of the Bank in accordance with its specific business needs in order for the Bank to derive benefits from the operation of the SEs.
- The Bank has the decision-making powers to obtain the majority of the benefits of the activities of the SEs or, through the creation of an “autopilot” mechanism, the Bank has delegated these decision-making powers.
- The Bank has the rights to obtain most of the majority of the benefits of the SEs and, therefore, may be exposed to risks related to the activities of the SEs.

- The Bank retains the majority of the ownership and residual risks associated with the assets of the SEs in order to obtain benefits from its activities.

The assessment of whether the Bank has control over an SE is carried out at inception, and a subsequent reassessment is usually not carried out in the absence of changes in the structure or conditions of the SE, or additional transactions between the Bank and SE. Day-to-day changes in market conditions do not usually lead to a reassessment of control. However, sometimes changes in market conditions may alter the essence of the relationship between the Bank and the SE and, in these cases, the Bank determines whether the change warrants a new assessment of control based on specific facts and circumstances. When the Bank's voluntary actions, such as lending in excess of existing liquidity facilities or extending terms beyond those originally established, changing the relationship between the Bank and the SE, the Bank performs a new reassessment of control over the SE.

## **2.5. Use of estimates and judgments**

The preparation of interim condensed consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results could differ from these estimates.

In the preparation of these interim condensed consolidated financial statements, the significant judgments made by Management in applying the Bank's accounting policies and the key sources of uncertainty in the estimate are the same as those applied to the consolidated financial statements for the year completed on December 31, 2016, except for:

### **Impairment of loans**

Impairment of credit risk is recognized at the balance sheet date as an inherent loss in the loan portfolio. The determination of the allowance for loan losses requires a management criterion for estimates that include, but is not limited to, identification of impaired portfolio, customers' ability to pay, and estimation of the fair value of underlying collateral, or of the cash flows expected to be received.

The Bank assesses whether an asset or group of financial assets is impaired and an impairment loss is recognized, if and only if, there is objective evidence that impairment exists because of one or more events that occurred after the initial recognition of the asset ("a loss event") and that the loss event (or events) have an impact on the estimated cash flows of the financial assets or group of financial assets that can be estimated reliably.

These estimates are considered a critical criterion because: (i) they are highly susceptible to change from period to period while assumptions about future default rates and valuation of potential losses related to portfolio impairment and advances are based on current performance experience, and (ii) any significant difference between the Bank's estimated losses (reflected in the provisions) and current losses, will require the Bank to make provisions that, if significantly different, could have a material impact on future financial condition and results of operations.

The objective evidence that a financial asset is impaired includes:

- Significant financial difficulty of the borrower or issuer;
- Non-payment or delinquency by the borrower;
- Restructuring of a loan or advance by the Bank under conditions that the Bank would not otherwise consider;
- Indications that a borrower or issuer goes bankrupt;

- The disappearance of an active market for an instrument;
- Observable data relating to a group of assets such as adverse changes in the payments status of the borrowers or issuers included in the Bank, or economic conditions that correlate with defaults on the Bank's assets.

As at June 30, 2017, Management updated: (i) the methodology for estimating probabilities of failure to pay (days of failure to pay considered as default or arrears period on which a customer is considered in default) of the mortgage and consumption portfolio to evaluate the adequacy of the general reserve component of the allowance for loan losses and, (ii) the components of the reserve model for mortgage loans. The financial impact of these changes was not significant in the results for the period.

## **2.6. Loans**

They are non-derivative financial assets with fixed or determinable payments composed mainly of corporate loans, consumer, financial leases and mortgage loans. They are initially recognized at fair value plus transaction costs and acquisition costs directly attributable to issuance and are subsequently measured at amortized cost using the effective interest rate method, except when the Bank chooses to recognize loans and advances at fair value with changes in results.

This method calculates the amortized cost of an asset and allocates the interest income or cost during the relevant period. Effective interest rate equals exactly estimated cash flows receivable over the expected life of the financial instrument, or when appropriate, for a shorter period, to the net carrying amount of the asset at the initial time.

To calculate the effective interest rate, the Bank estimates the cash flows considering all contractual terms of the financial instrument, not including future credit losses and considering transaction or grant costs, transaction costs and premiums granted, minus commissions and discounts received that are an integral part of the effective rate.

### **2.6.1. Impairment of loans**

The Bank evaluates the loans individually, analyzing the profile of each debtor, the guarantees granted and information on credit behavior in the sector. Significant financial assets are considered impaired when, based on current or past information and events, it is probable that the entity will not be able to recover all the amounts described in the original contract including the interest and commissions agreed upon in the contract. When these significant financial assets are identified as impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, including the fair value of any collateral, discounted at the financial asset's original effective interest rate. When it is determined that the significant financial asset will be substantially recovered solely from the value of collaterals or guarantees, the Bank estimates the impairment loss as the difference between the carrying amount of the loan and the current fair value of the collateral or guarantee less the estimated selling costs when applicable.

For loans that are not considered individually significant and loans individually significant that are not considered impaired, a collective assessment is carried out. Portfolios of financial assets with similar credit risk characteristics are grouped together, using statistical techniques based on the analysis of historical loss experience. The historical losses information used in the process is adjusted to include the most recent data regarding current economic conditions, the performance trends by industry or region, or the concentration of obligations in each portfolio of financial assets by segment, and any other relevant information that may affect the allowance for loans and advances and lease losses.

Financial assets are classified as impaired when the loans are typically three months or more past due as well as in cases where there is other objective evidence of impairment.

Quantification of the losses based on historical loss experience takes into account three fundamental factors: exposure at default, the probability of default and the loss given default:

- Exposure at default: This is defined as the current balance of the principal, interest receivable accounts and other receivables regarding consumer and commercial loans at the statement of financial position date. In the case of loans which include a revolving line of credit that is susceptible to be used in its entirety in the form of loan contracts, this parameter includes the Bank's expectations of future drawdowns even though the corresponding provisions for committed credit lines are included as liabilities on the statement of financial position.
- Probability of default (PD): The likelihood that a customer will fail to make full and timely repayment of credit obligations over a one year horizon. The PD estimated for a period of 12 months is adjusted by the loss identification period (LIP) in order to estimate the point in time probability of default at the statement of financial position date as follows:
  - The parameter "point-in-time," which converts the probability of cycle-adjusted default required for regulatory purposes (defined as the average probability of default in a complete economic cycle) to the probability of default on a given date required by IFRS; known as "point-in-time" probability.
  - LIP is the period from the occurrences of a loss event to the moment in which that loss becomes evident at an individual loan level. LIP is calculated based on homogeneous groups. In the case of doubtful assets, the probability of default is 100%. The qualification of an asset as "doubtful" is caused by a delinquency equal to or greater than 90 days, as well as in these cases where there is no delinquency, but exists doubts about the solvency of the debtor.
- Loss given default (LGD): This is defined as the loss the Bank would incur in the event of any instance of default. This depends mainly upon the characteristics of the debtor and the value of the guarantees or collateral. The LGD parameter is calculated based on homogeneous groups.

Once a loan or group of loans is classified as impaired, interest income continues to be recognized using the interest rate applied to discount future cash flows of the loan in order to assess its impairment losses.

## **2.7. New and revised accounting pronouncements**

### *New standards and amendments adopted by the Bank*

- **Amendment to IAS 7: Statement of Cash Flows - Disclosure Initiative:** The amendment requires entities to present a breakdown of changes in liabilities arising from financing activities, in order to improve the information provided to users of the financial information. The effective date of this amendment is January 1, 2017, with prospective application, although early adoption is allowed.

- **Amendment to IAS 12:** Income Taxes - Recognition of deferred tax assets for unrealized losses: The amendment provides clarity regarding the recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value, for whose tax base is the cost; the estimation of future taxable profits, in which it may be assumed that an asset will be recovered for a value that exceeds its carrying amount, and the exclusion of the tax base resulting from the reversal of the deductible temporary differences to analyze the recoverability of the same and compare them with the future economic benefits. Retroactive application date will be from January 1, 2017, although early adoption is allowed.

*New standards and amendments not yet adopted by the Bank*

New standards, interpretations, and amendments to accounting standards have been issued, but are not mandatory for the period ended June 30, 2017, and have not been adopted in advance by the Bank. The assessment of the impact of these new standards is presented below:

- **IFRS 9 - Financial Instruments:** IFRS 9, issued in November 2009, incorporated new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition and, in November 2013 it included the new requirements for general hedge accounting.

In July 2014, a revised version of IFRS 9 was issued primarily to include: (a) impairment requirements for financial assets and (b) limited modifications to the classification and measurement requirements by introducing a measurement category at “fair value through other comprehensive income” (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- IFRS 9 requires that all recognized financial assets that are within the scope of IAS 39 - Financial Instruments: Recognition and Measurement are subsequently measured at amortized cost or at fair value. Specifically, debt instruments that are held within a business model whose object is to collect contractual cash flows and which have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments held within a business model whose objective is fulfilled both by collecting contractual cash flows that are only payments of principal and interest, and selling financial assets, are also measured at fair value through other comprehensive income. All other debts and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable choice to present the subsequent changes in the fair value of an equity investment (not held for trading) in other comprehensive income, only with dividend income generally recognized in profit or loss.
- With respect to the measurement of financial liabilities that are designated at fair value through profit or loss, IFRS 9 requires that the amount of the change in the fair value of the financial liability that is attributable to the changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of the changes in credit risk of the liability in other comprehensive income creates or increases an accounting difference in profit or loss. Changes in the fair value attributable to the credit risk of the financial liability are not reclassified after profit or loss.

Under IAS 39, the total amount of the change in the fair value of the financial liability designated at fair value through profit or loss was recognized in profit or loss.

- With respect to the impairment of financial assets, IFRS 9 requires an expected impairment loss model, as opposed to the impairment loss model incurred, in accordance with IAS 39. The credit loss impairment model requires an entity to account for the expected credit losses and its changes in these expected credit losses at each reporting date to reflect changes in credit risk since the initial recognition. In other words, a credit event is no longer needed before credit losses are recognized.

The new general requirements for hedge accounting maintain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically, by broadening the types of instruments that classify as hedging instruments and the types of risk components of non-financial items ideal for hedge accounting. In addition, the proof of effectiveness has been revised and replaced by the principle of “economic relationship”. A retrospective assessment is no longer required to measure the effectiveness of hedges. Enhanced disclosure requirements were also added about risk management activities of an entity.

The effective date for the application of IFRS 9 is for annual periods beginning on or after January 1, 2018. However, this Standard may be adopted earlier.

- **IFRS 15 - Revenues from Client Contracts:** In May 2014, IFRS 15 was issued, which establishes an extensive and detailed model to be used by entities in accounting for revenue from contracts with clients. IFRS 15 will replace the current revenue recognition guidance, including IAS 18 - Income, IAS 11 - Construction Contracts and the relative interpretations on the date it becomes effective.

The fundamental principle of IFRS 15 is that an entity should recognize income to represent the transfer of promised goods or services to clients, in an amount that reflects the consideration to which the entity expects to receive in exchange for goods or services. Specifically, the standard adds a 5-step model to revenue recognition:

- Step 1: Identify the contract with clients.
- Step 2: Identify performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Distribute the transaction price to the performance obligations in the contract.
- Step 5: Recognize the revenue when (or as) the entity meets the obligation.

Under IFRS 15, an entity records an income when (or as) a performance obligation is met, that is when the “control” of goods and services based on a particular performance obligation is transferred to the customer. Far more prescriptive guidelines have been added in IFRS 15 to address specific situations. Furthermore, IFRS 15 requires extensive disclosures.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- **IFRS 16 - Leases:** On January 13, 2016, IFRS 16 Leases was issued, which replaces the current IAS 17 Leases. IFRS 16 eliminates the classification of leases, either as operating leases or financial leases for the lessee. Instead, all leases are recognized in a similar manner to financial leases under IAS 17. Leases are measured at the present value of future lease payments and are presented either as leased assets (assets for the right of use) or along with real estate, furniture, and equipment. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that also adopt IFRS 15 - Income from Contracts with Clients.

- **Amendment to IFRS 2: Share-based payments - Classification and valuation of share-based payments:** Issued on June 20, 2016, the amendment provides the classification and measurement in relation to cash-settled share-based payment accounting that includes a performance condition, classification of share-based payment transactions with net tax settlement characteristics, and modification of cash-settled share-based payment settlements. The amendment is effective as of January 1, 2018, allowing for early adoption.

Management does not observe any impact due to the modification of IFRS 2 in the Bank due to the fact that there are no share-based payments.

- **IFRIC 22 Transactions in foreign currency and prepayments:** This interpretation is issued for the purpose of determining the exchange rate to be used for the recognition of income from ordinary activities when an entity has received an anticipated consideration in foreign currency. The date of the transaction for the purpose of determining the exchange rate to be used in the initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from payment or collection of the anticipated consideration. This interpretation is effective as of January 1, 2018, allowing for early adoption.

Management does not observe any impact by amending IFRIC 22 in the Bank's financial statements.

- **IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Transfer or contribution of assets between an investor and its associate or joint venture:** IFRS 10 requires full recognition of the profit or loss in the loss of control of the subsidiary, including the sale or contribution of the joint or associated business subsidiary. To address this conflict, IASB has issued amendments to IFRS 10 and IAS 28.

- **Amendments to IFRS 10 Consolidated financial statements:** The amendment to IFRS 10 introduces an exception to the general requirements of full recognition of the gain or loss in the loss of control over the subsidiary. If a parent company loses control of a non-business subsidiary, as defined in IFRS 3, as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method, the parent company will determine the gain or loss arising from the transaction, including amounts previously recognized in other comprehensive income; this will be recognized in the income statement of the parent company only to the extent of the interests in that associate or joint venture of other investors not related to the investor .

The remaining portion of the gain will be eliminated against the carrying amount of the investment in that associate or joint venture. In addition, if the parent company retains an investment in the former subsidiary and it is now an associate or joint venture that is accounted for using the equity method, the parent company will recognize the portion of the gain or loss that arises from the new measurement as fair value of the investment retained in that former subsidiary in its profit or loss for the period only to the extent of the holdings in the new associate or joint venture of other investors not related to the investor. The remainder of that gain will be eliminated against the carrying amount of the investment held in the former subsidiary. If the parent company retains an investment in the former subsidiary that is now accounted for in accordance with IFRS 9, the portion of the gain or loss that arises from the new measurement at fair value of the investment retained in the former subsidiary will be recognized in full in the results of the period of the parent company.

- **Amendments to IAS 28 Investments in associates and joint ventures:** Gains and losses from “upstream” and “downstream” transactions involving non-business assets, as defined in IFRS 3, between an entity (including its consolidated subsidiaries) and its associate or joint venture will be recognized in the financial statements of the entity only to the extent of the investments in the associate or joint venture of other investors not related to the investor. “Upstream” transactions, for example, are sales of assets of the associate or joint venture to the investor. “Downstream” transactions, for example, are sales or contributions of assets of the investor to its associate or joint venture.

When downstream transactions provide evidence of a reduction in the net realizable value of the assets to be sold or contributed or impairment of those assets, the losses will be fully recognized by the investor. When upstream transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or impairment of those assets, the investor will recognize its share in those losses

Due to the nature of the Bank's financial operations, the adoption of these standards will have a significant impact on the interim condensed consolidated financial statements, an aspect that is being evaluated by Management.

### **3. Financial instrument risk management**

The Bank's activities are exposed to a variety of financial risks: credit, liquidity, market and operational risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statement; these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of December 31, 2016.

There were no changes in the risk management department or in any risk management policy since December 31, 2016.

### 3.1. Credit risk

#### Credit quality analysis

The following table analyzes the credit quality of financial assets and reserves for impairment/loss:

	Loan receivables		Investments in securities (excluding equity shares)		Contingencies of credit risk	
	June 30 2017 (Unaudited)	December 31 2016 (Audited)	June 30 2017 (Unaudited)	December 31 2016 (Audited)	June 30 2017 (Unaudited)	December 31 2016 (Audited)
<b>Maximum exposure</b>						
<b>Net carrying amount</b>	<u>7,390,123,840</u>	<u>7,143,749,112</u>	-	-	-	-
<b>At amortized cost</b>						
Grade 1: Normal	6,980,875,887	6,628,338,030	-	-	-	-
Grade 2: Low-reasonable risk	278,977,671	413,616,878	-	-	-	-
Grade 3: Subnormal	81,437,194	66,957,257	-	-	-	-
Grade 4: Doubtful	145,115,586	128,039,802	-	-	-	-
Grade 5: Unrecoverable	45,086,780	28,921,834	-	-	-	-
Gross Amount	<u>7,531,493,118</u>	<u>7,265,873,801</u>	-	-	-	-
Less:						
Allowance for impairment	141,369,278	122,124,689	-	-	-	-
<b>Carrying amount, net</b>	<u>7,390,123,840</u>	<u>7,143,749,112</u>	-	-	-	-
<b>Renegotiated and restructured loans</b>						
Gross amount	72,066,460	71,447,383	-	-	-	-
Impaired amount	20,159,842	23,796,075	-	-	-	-
Reserve for impairment	(3,132,341)	(11,336,495)	-	-	-	-
<b>Carrying amount, net</b>	<u>68,934,119</u>	<u>60,110,888</u>	-	-	-	-
<b>Available for sale</b>						
Grade 1: Normal	-	-	482,517,903	403,279,693	-	-
Does not qualify	-	-	72,179,060	75,741,614	-	-
<b>Carrying amount, net</b>	-	-	<u>554,696,963</u>	<u>479,021,307</u>	-	-
<b>With changes in profit or loss</b>						
Grade 1: Normal	-	-	72,256,517	120,574,037	-	-
<b>Carrying amount</b>	-	-	<u>72,256,517</u>	<u>120,574,037</u>	-	-
<b>Held to maturity</b>						
Grade 1: Normal	-	-	35,029,167	35,035,000	-	-
Does not qualify	-	-	72,461,561	72,461,176	-	-
<b>Carrying amount</b>	-	-	<u>107,490,728</u>	<u>107,496,176</u>	-	-
<b>Neither in default or impaired</b>						
Grade 1: Normal	6,980,875,887	6,613,892,016	-	-	-	-
Sub-total	<u>6,980,875,887</u>	<u>6,613,892,016</u>	-	-	-	-

	Loan receivables		Investments in securities (excluding equity shares)		Contingencies of credit risk	
	June 30 2017 (Unaudited)	December 31 2016 (Audited)	June 30 2017 (Unaudited)	December 31 2016 (Audited)	June 30 2017 (Unaudited)	December 31 2016 (Audited)
<b>In default but not impaired</b>						
Grade 1: Normal	-	14,446,014	-	-	-	-
Grade 2: Low- reasonable risk	136,311,819	116,337,327	-	-	-	-
Grade 3: Subnormal	65,617,375	50,706,213	-	-	-	-
Sub-total	<u>201,929,194</u>	<u>181,489,554</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Individually impaired</b>						
Grade 2: Low- reasonable risk	142,665,852	295,892,799	-	-	-	-
Grade 3: Subnormal	15,819,819	6,322,876	-	-	-	-
Grade 4: Doubtful	114,364,715	99,306,840	-	-	-	-
Grade 5: Unrecoverable	44,061,429	26,097,547	-	-	-	-
Sub-total	<u>316,911,815</u>	<u>427,620,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Allowance for impairment according to provision methodology</b>						
Individual	71,517,677	63,971,145	-	-	-	-
Collective	69,851,601	58,153,544	-	-	-	-
Total allowance for impairment	<u>141,369,278</u>	<u>122,124,689</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Portfolio overdue</b>						
91 to 180 days	119,721,370	73,693,773	-	-	-	-
181 days or more	76,644,622	80,528,883	-	-	-	-
	<u>196,365,992</u>	<u>154,222,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Commitments and contingencies</b>						
Grade 1: Normal	-	-	-	-	1,720,632,784	1,671,201,468
Grade 2: Low- reasonable risk	-	-	-	-	3,620,598	36,073,387
Grade 3: Subnormal	-	-	-	-	2,739,499	2,325,019
Grade 4: Doubtful	-	-	-	-	2,238,596	3,158,676
Grade 5: Unrecoverable	-	-	-	-	1,681,336	685,566
Carrying amount	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,730,912,813</u>	<u>1,713,444,116</u>
<b>Contingent reserve of banking guarantees</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,850</u>	<u>7,093,482</u>

The following table shows the reconciliation of individually impaired credits:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Balance at the beginning of the period	427,620,062	93,698,890
New	133,624,641	388,453,727
Paid off	(178,624,795)	(20,895,322)
Written off	(4,915,857)	(14,982,614)
Installments	(40,538,015)	(2,200,072)
Change in impairment	(20,254,221)	(16,454,547)
Balance at the end of the period	<u>316,911,815</u>	<u>427,620,062</u>

### **3.2. Capital management**

The Bank regulators, the Superintendency of Banks of Panama and the Superintendency of Securities Market require the Bank to maintain a measured total capital ratio based on risk-weighted average assets.

The Panamanian Banking Law establishes a minimum paid capital of B/.10,000,000 for general license banks and capital funds may not be less than 8% of their risk-weighted assets. As for assets, they should be considered net of their respective provisions or reserves and with the weights indicated in Agreement No. 3-2016 of the Superintendency of Banks of Panama.

The regulatory capital position, in the context of the consolidated financial statements, is presented below, in accordance with the capital rules established in Agreement No.1-2015 and the risk weighting rules established in Agreement No.3-2016, and reported to the Superintendency of Banks of Panama for the period ended June 30, 2017:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
<b>Primary capital</b>		
Common shares	11,325,781	11,325,781
Additional paid-in capital	743,744,192	743,744,192
Reserve for valuation of investment in securities	26,091,932	24,326,992
Retained earnings	183,033,055	144,037,766
Sub-total of ordinary primary capital (OPC)	<u>964,194,960</u>	<u>923,434,731</u>
Less: OPC regulatory adjustments		
Tax-deferred assets and unused tax credit	49,542,565	45,182,544
Goodwill (Note 14)	61,193,018	61,193,018
Intangible assets (Note 14)	13,866,352	14,135,988
Total deduction - ordinary primary capital	<u>124,601,935</u>	<u>120,511,550</u>
<b>Additional primary capital</b>	-	-
Total primary capital	<u>839,593,025</u>	<u>802,923,181</u>
<b>Secondary capital</b>	-	-
<b>Dynamic equity reserve</b>	<u>95,126,010</u>	<u>92,896,149</u>
Total of regulatory capital	<u>934,719,035</u>	<u>895,819,330</u>
Total risk weighted assets	<u>6,429,112,251</u>	<u>6,221,151,140</u>
	Required minimum	
<b>Capital indexes</b>		
Primary ordinary capital	4.50%	13.1%
Primary capital	6.00%	13.1%
Total capital	8.00%	14.5%
Leverage coefficient	3.00%	8.9%

#### 4. Operation segments

The Bank's operations include support services and support from its Head Office. The cost of these functions is distributed to the different lines of business on a systematic and consistent basis, where appropriate. In addition, the income and expenses generated by these segments that interact with each other in the normal course of operations and that have a financial impact on their results are considered in this distribution as they are a comprehensive part of the Bank.

The information segment of the Bank is presented by the line of business, as detailed below:

Personal banking and SMEs

This line of business offers products and services focused on meeting the financial needs of individuals and companies. Individuals are served through four segments: People, Plus, Preferred and Private; on the other hand, corporate clients are segmented into Small SME, Internal SME and Large SME. Among the products being offered by this line are checking and savings accounts, fixed-term deposits, personal loans, auto loans, and home mortgages, leasing and commercial loans.

Corporate and government banking

This line of business is responsible for serving local and international legal entities, as well as the Panamanian government and public sector institutions. Corporate and Government Banking offers a banking services platform included of a variety of commercial loans, deposits and cash management services, letters of credit and leases, as well as investment banking services and trusts.

Valores Banistmo S.A.

This line of business offers products and services of capital markets directed to natural and legal persons. Among the products offered by this line are: brokerage and custody of fixed income instruments, variable income, in-house funds and third-party funds. In addition, third-party portfolio management (discretionary management of portfolio investments) is offered.

Business segments are described as follows:

	<b>June 30 2017 (Unaudited)</b>			
	<b>(in thousands of Balboas)</b>			
	<b>Personal banking and SMEs</b>	<b>Corporate and government banking</b>	<b>Valores Banistmo S.A.</b>	<b>Total</b>
Interest and commission income	161,812	113,566	853	276,231
Expenses from interest and provisions	(95,407)	(35,697)	(2)	(131,106)
Transfer pricing	10,087	(10,087)	-	-
Other income	410	6,168	1,106	7,684
General and administrative expenses	(62,462)	(35,087)	(1,870)	(99,419)
Net profit before income tax	<u>14,440</u>	<u>38,863</u>	<u>87</u>	<u>53,390</u>
Total assets	<u>4,160,278</u>	<u>5,156,899</u>	<u>37,729</u>	<u>9,354,906</u>
Total liabilities	<u>4,577,196</u>	<u>3,726,161</u>	<u>2,953</u>	<u>8,306,310</u>

	<b>June 30 2016 (Unaudited)</b> (in thousands of Balboas)			
	<b>Personal banking and SMEs</b>	<b>Corporate and government banking</b>	<b>Valores Banistmo S.A.</b>	<b>Total</b>
Interest and commission income	139,711	104,029	-	243,740
Expenses from interest and provisions	(67,258)	(47,525)	-	(114,783)
Transfer pricing	7,847	(7,847)	-	-
Other income	1,489	4,975	-	6,464
General and administrative expenses	(63,926)	(34,910)	-	(98,836)
Net profit before profit tax	<u>17,863</u>	<u>18,722</u>	<u>-</u>	<u>36,585</u>
	<b>December 31 2016 (Audited)</b>			
Total assets	<u>4,115,668</u>	<u>5,019,079</u>	<u>39,353</u>	<u>9,174,100</u>
Total liabilities	<u>4,438,151</u>	<u>3,727,498</u>	<u>734</u>	<u>8,166,383</u>

#### 5. Fees, other fees, and other income

The breakdown of fee income, other fees, and other income is as follows:

	<b>June 30 2017 (Unaudited)</b>	<b>June 30 2016 (Unaudited)</b>
Fees and other commissions on:		
Trust management	755,985	684,381
Custody	74,033	21,912
Letters of credit and document collections	2,650,787	3,103,508
Debit and credit cards	32,257,748	26,081,541
Banking services	8,533,045	8,396,709
Others	5,454,486	3,699,522
	<u>49,726,084</u>	<u>41,987,573</u>
	<b>June 30 2017 (Unaudited)</b>	<b>June 30 2016 (Unaudited)</b>
Other net income:		
Net gain on sale of foreclosures	214,871	855,108
Gain on fixed asset sale	26,936	1,006,332
Other income	736,995	780,776
	<u>978,802</u>	<u>2,642,216</u>

## 6. Net gain on securities and derivatives

Net gains on securities and derivatives are summarized below:

	June 30 2017 (Unaudited)	June 30 2016 (Unaudited)
Net loss on hedge contracts	(789,032)	(5,822,354)
Net loss on derivative contracts	(97,240)	(419,849)
Change in the fair value of hedge item fair value hedge (Note 10)	67,249	3,887,090
Gain on the purchase and sale of foreign currencies (Note 11)	784,219	97,770
Gain on the sale of securities at fair value	77,703	-
Net gain on fair value through profit or loss (Note 10)	1,503,598	2,124,181
Net gain on sale of securities available for sale (Note 10)	2,589,495	1,194,674
Net gain in currency conversion	584	291
(Loss) gain in foreign exchange	(2,391)	10,336
Dividends on available for sale investments	41,824	40,995
	<u>4,176,009</u>	<u>1,113,134</u>

## 7. Expenses, other provisions and impairment

The detail of other provisions and impairment, expenses for commissions, salaries and other personnel costs, and other expenses is presented below:

	June 30 2017 (Unaudited)	June 30 2016 (Unaudited)
Other provisions and impairment:		
(Reversal of) provision for litigations	(83,694)	102,962
(Reversal of) provision for contingencies	(6,994,632)	646,736
Impairment for other assets (Note 15, 24)	368,207	247,971
	<u>(6,710,119)</u>	<u>997,669</u>
	June 30 2017 (Unaudited)	June 30 2016 (Unaudited)
Commission expenses:		
Brokerage commissions	35,328	23,686
Credit cards	15,604,810	16,251,173
Banking correspondent	264,101	155,884
Other commissions	2,553,260	1,307,051
	<u>18,457,499</u>	<u>17,737,794</u>

	<b>June 30 2017 (Unaudited)</b>	<b>June 30 2016 (Unaudited)</b>
Salaries and other employee costs:		
Salaries	32,259,292	30,471,642
Severance pay	3,874,159	3,639,447
Employee benefits	3,399,590	3,208,964
Seniority premium and indemnity	3,037,344	1,681,030
Training	61,092	279,092
Others	388,127	321,128
	<u>43,019,604</u>	<u>39,601,303</u>
	<b>June 30 2017 (Unaudited)</b>	<b>June 30 2016 (Unaudited)</b>
Other expenses:		
Technology support	11,270,624	7,904,975
Others	6,472,611	6,297,950
Taxes, other than income tax	3,456,623	3,551,268
Energy and communications	3,490,999	3,609,176
Maintenance and cleaning	3,009,046	3,494,386
Surveillance	1,116,484	1,622,774
Cash transportation	764,510	825,436
Insurance	678,048	711,607
Stationary and office supplies	649,934	755,426
Trips and meetings	415,531	487,678
Transportation	254,083	254,101
	<u>31,578,493</u>	<u>29,514,777</u>

## 8. Taxes

The income tax for the interim periods has been estimated using the tax rate that will be applicable to the expected annual taxable income.

The income tax returns of the Bank and its subsidiaries are subject to review by the tax authorities for the last three (3) years, including the year ended December 31, 2016, in accordance with current tax regulations.

Under current tax regulations, companies are exempt from income tax on gains from foreign operations, from interest earned on time deposits at local banks, from government debt securities of the Government of Panama and from investments in securities listed by the Superintendency of Securities Market and traded at Panama Stock Exchange, S.A.

Law No. 8 of March 15, 2010 was published on Official Gazette No. 26489-A, amending the general income tax rates. For financial institutions, the fee is 25% as of January 1, 2014.

Law No. 52 of August 28, 2012, refunded the payment of the income tax estimates as of September 2012. According to the aforementioned Law, the income tax estimates must be paid in three equal items during the months of June, September, and December of each year.

Law No. 8 of March 15, 2010 introduces the method of presumptive taxation of income tax, compelling any legal entity that earns income in excess of one million five hundred thousand balboas (B/.1,500,000) to determine, as a basis the taxable net income, the greater amount between (a) income tax calculated by the ordinary method stated in the Tax Code and (b) the net taxable income that results from applying the four point sixty seven percent (4.67%) to the total taxable income.

Legal entities that incur in losses due to the tax calculated under the presumed method or due to the application of said method, if their effective rate exceeds the tax rates applicable to their net income taxable under the ordinary method for the period, may request the Tax Authority to authorize the calculation of the tax under the ordinary method of calculation. The Bank and its subsidiaries have historically applied the ordinary method for calculating income tax.

Law No. 33 of September 30, 2010, as amended by Law No. 56 of August 28, 2012, added Chapter IX to Title I of Book Four of the Fiscal Code, known as Norms for the Adaptation to Treaties or Conventions in Avoiding Double International Taxation, establishing the transfer pricing regime applicable to taxpayers that carry out operations with related parties residing abroad. These taxpayers must determine their income, costs, and deductions for tax purposes in their tax return, based on the price or amount that independent parties would have agreed under similar circumstances of free competition, using the methods stated in said Law No. 33.

This Law establishes the obligation to present an information statement of transactions with related parties (Report 930 within nine months of the end of the corresponding fiscal year, as well as to have, at the time of the presentation of the report, a transfer pricing study supporting the statement by means of Report 930). This study must be provided at the request of the Fiscal Authority, within 45 days counted as of the date when the request was notified. Failure to submit the information statement will result in a fine equivalent to one percent (1%) of the total value of the transactions carried out with related parties.

As disclosed in Note 21 of these interim condensed consolidated financial statements, the Bank has entered into related party transactions. As of fiscal year 2012, the Bank is required to comply with the presentation of the report, even if its related parties are residents of countries with which the Republic of Panama has not signed these agreements.

Analyzes of transactions between foreign-related companies for the periods 2013, 2014, 2015 and 2016 have not had an impact on the respective income tax returns.

### **8.1. Amount recognized in the statement of profit or loss**

The detail of the income tax expense is as follows:

	<b>June 30 2017 (Unaudited)</b>	<b>June 30 2016 (Unaudited)</b>
Income tax:		
Current period	12,005,045	10,971,128
Prior period adjustment	1,574,289	(23,972)
	<u>13,579,334</u>	<u>10,947,156</u>
Deferred tax:		
Reserve for loan losses	(4,824,213)	(6,163,911)
Provision for credit card awards and litigations	2,832,339	(251,200)
Provisions other receivables	160,305	-
	<u>(1,831,569)</u>	<u>(6,415,111)</u>
Total income tax expense	<u>11,747,765</u>	<u>4,532,045</u>

## 8.2. Reconciliation of income tax

The reconciliation of income tax expense with profit before income tax is as follows:

	June 30 2017 (Unaudited)	June 30 2016 (Unaudited)
Profit before income tax	<u>53,390,368</u>	<u>36,585,225</u>
Income tax calculated at 25%	13,347,592	9,146,306
Foreign income, exempt or non-taxable	(11,145,052)	(18,875,153)
Non-deductible costs and expenses	7,920,632	14,262,036
Income tax from previous years	1,574,289	(23,972)
Effects from the application of different local tax rates	<u>50,304</u>	<u>22,828</u>
Income tax	<u>11,747,765</u>	<u>4,532,045</u>

Effective income tax rate:

	June 30 2017 (Unaudited)	June 30 2016 (Unaudited)
Profit before income tax	53,390,368	36,585,225
Income tax expense	<u>11,747,765</u>	<u>4,532,045</u>
Effective income tax rate	<u>22.00%</u>	<u>12.39%</u>

Management made its estimates of deferred income tax asset, using the current tax rate in accordance with its tax law.

The conciliation of the deferred income tax asset of the previous year with the current period is as follows:

	June 30 2017 (Unaudited)			December 31 2016 (Audited)		
	Beginning balance	Recognition in profit or loss	Final balance	Beginning balance	Recognition in profit or loss	Final balance
Reserve for loan losses	30,224,099	4,824,213	35,048,312	16,578,932	13,645,167	30,224,099
Provisions for credit card awards and litigations	3,744,555	(2,832,339)	912,216	1,769,007	1,975,548	3,744,555
Provisions for other accounts receivable	<u>1,139,980</u>	<u>(160,305)</u>	<u>979,675</u>	<u>937,500</u>	<u>202,480</u>	<u>1,139,980</u>
	<u>35,108,634</u>	<u>1,831,569</u>	<u>36,940,203</u>	<u>19,285,439</u>	<u>15,823,195</u>	<u>35,108,634</u>

Based on current and projected results, the Bank's Management and its subsidiaries consider that there will be sufficient taxable income to absorb deferred tax assets that are presented in the interim condensed consolidated statement of financial position.

## 9. Cash and cash equivalents

Cash and cash equivalents are detailed below for purposes of reconciling the interim condensed consolidated statement of cash flows:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Cash and cash effects	120,482,188	203,946,735
Demand deposits	353,046,597	364,594,966
Fixed time deposits	<u>382,650,467</u>	<u>376,901,021</u>
	856,179,252	945,442,722
Less:		
Restricted demand deposit	(220,000)	(220,000)
Restricted fixed time deposits	(2,950,000)	(3,500,000)
Original fixed time deposits over three months	<u>(31,303,317)</u>	<u>(42,782,914)</u>
<b>Cash and cash equivalents for purposes of the consolidated statement of cash flows</b>	<u>821,705,935</u>	<u>898,939,808</u>

As at June 30, 2017, the annual interest rates accrued on time deposits ranged between 0.25% and 4.25% (December 31, 2016: 0.35% and 5.85%).

As at June 30, 2017, foreign currency deposit for B/.220,000 (December 31, 2016: B/.220,000) guarantees the use of the Pershing LLC platform as an international custodian.

As at June 30, 2017, deposits in foreign banks for B/.2,950,000 (December 31, 2016: B/.3,500,000) were restricted as collateral for transactions with interest rate swap and forward foreign exchange transactions with those counterparts where there are margin call clauses. These deposits have original maturities of three months or less.

## 10. Investments in securities

Investments in securities are detailed as follows:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Investment in securities:		
Securities at fair value with changes in profit or loss	72,256,517	120,574,037
Securities available for sale	580,564,505	507,264,584
Securities held to maturity	<u>107,490,728</u>	<u>107,496,176</u>
	<u>760,311,750</u>	<u>735,334,797</u>

**10.1. Securities at fair value with changes in profit or loss**

	<b>June 30 2017 (Unaudited)</b>		<b>December 31 2016 (Audited)</b>	
	<u>Fair value</u>	<u>Original cost</u>	<u>Fair value</u>	<u>Original cost</u>
Corporate bonds	31,826,692	31,629,495	31,993,996	30,848,383
Republic of Mexico bonds	4,248,074	4,220,860	57,341,712	57,124,110
United States of America bonds	4,019,515	4,026,362	11,764,258	13,182,449
Republic of Panama bonds	19,614,390	19,406,454	10,302,089	10,299,691
Republic of Colombia bonds	1,976,553	1,975,000	-	-
Republic of Costa Rica bonds	10,571,293	10,544,948	9,171,982	9,157,153
	<u>72,256,517</u>	<u>71,803,119</u>	<u>120,574,037</u>	<u>120,611,786</u>

During the period ended June 30, 2017, a gain in fair value was recognized with changes in profit or loss for B/.1,503,598 (2016: gain B/.2,124,181) in the interim condensed consolidated statement of profit and loss and presented in the item net gain in securities at fair value through profit or loss. (See Note 6).

Fair values are determined by the publicly quoted prices of the bond published in the stock exchange and in electronic stock market information systems.

During the period ended June 30, 2017, there have been no reclassifications of investment securities under this category.

**10.2. Securities available for sale**

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Republic of Panama bonds	297,659,796	262,629,218
Republic of Colombia bonds	-	42,483,944
Republic of Mexico bonds	-	3,300,579
United States of America bonds	184,858,107	94,865,952
Certification of Participation (CERPAN)	72,179,060	75,741,614
Equity securities	25,867,542	28,243,277
	<u>580,564,505</u>	<u>507,264,584</u>

As at June 30, 2017, the Bank keeps equity securities in the amount of B/.291,360 (December 31, 2016: B/.341,360), which are held at acquisition cost for not being able to reliably determine its fair value. The Bank performs annual reviews to validate that the value of these investments has not suffered a permanent impairment, thus having to adjust the value of the investment. Equity shares held at cost do not have an active market, and the Bank plans to keep them in its books.

The movement of available for sale investments is detailed as follows:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Balance at the beginning of the period	507,264,584	579,342,338
Additions	193,774,957	216,404,000
Sales, redemptions and others	(124,258,877)	(308,792,751)
Balance of acquired subsidiary	(50,000)	75,000
Gain in sale investment securities	2,589,495	3,217,127
Transfers to gains or losses of change in fair value of the hedged item	(67,249)	926,078
Net change of fair value	1,832,189	16,290,829
Accrued interest receivable	(520,594)	(198,037)
Balance at end of the period	<u>580,564,505</u>	<u>507,264,584</u>

Sales operations during the period ended June 30, 2017, generated a gain of B/.2,589,495 (2016: B/.1,194,674) in the interim condensed consolidated statement of profit or loss and are presented in the income statement (loss) in securities and derivatives. (See Note 6).

As at June 30, 2017, an accumulative valuation of hedge derivative was recognized for B/.1,115,619 (December 31, 2016: B/.1,048,371) representing the portion of the unrealized gain or loss attributable to the hedge in those securities by derivatives assigned for fair value hedges.

During the period ended June 30, 2017, the Bank recognized in the interim condensed consolidated profit or loss statement an unrealized gain of B/.67,249 (2016: B/.3,887,090), as a result of the hedging activities of fair value which are presented in profit or loss for the period under the item net gain in securities and derivatives. (See Note 6).

Negotiable Certificates of Participation (CERPANES), with carrying amount of B/.50,147,412 (December 31, 2016: B/.60,445,391) and a market value of B/.54,115,486 (December 31, 2016: B/.64,846,598) guaranteed the loan received from Citibank, N.A., for a total of B/.39,000,000. (See Note 16).

The annual interest rates on available for sale securities range from 0.63% to 5.63% (December 31, 2016: 0.50% and 7.38%).

Local government bonds in the Bank's portfolio such as Notes and Treasury Bonds of the Republic of Panama are known as maintaining a good liquidity level because these public debt instruments are part of the "market makers" program.

During the period ended June 30, 2017, there have been no reclassifications of investment securities under this category.

**10.3. Securities held to maturity**

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Corporate bonds	<u>107,490,728</u>	<u>107,496,176</u>

During the period ended June 30, 2017, there have been no reclassifications of investment securities under this category.

**11. Derivatives**

<b>Types of derivative instruments</b>	<b>June 30 2017 (Unaudited)</b>	
	<b>Total assets</b>	<b>Total liabilities</b>
Forward and cash currency transactions	2,718,861	(2,567,359)
Forward of titles	2,943	-
Interest rate swap	1,459,440	(2,024,428)
	<u>4,181,244</u>	<u>(4,591,787)</u>

<b>Types of derivative instruments</b>	<b>December 31 2016 (Audited)</b>	
	<b>Total assets</b>	<b>Total liabilities</b>
Forward and cash currency transactions	5,728,561	(4,119,342)
Interest rate swap	1,942,307	(2,368,776)
	<u>7,670,868</u>	<u>(6,488,118)</u>

**11.1. Currency exchange**

The Bank enters into derivative contracts for the purchase/sale of foreign currency, in order to meet the needs of our clients and as a strategy for the mitigation of the exchange rate risk of the balance sheet positions. In this sense, the Bank manages and controls the risk on these derivatives within the management of the treasury market risk, by having risk exposure limits to the exchange rate.

As at June 30, 2017, the Bank had held subscribed future contracts for the purchase/sale of foreign currencies to cover its own operations and of the clients as follows:

Currency	June 30 2017 (Unaudited)		December 31 2016 (Audited)	
	Nominal value equivalent to Balboas	Fair value assets (liabilities)	Nominal value equivalent to Balboas	Fair value assets (liabilities)
<i>Future contract – purchase of currencies</i>				
Costa Rican Colones	10,555,207	303,052	3,000,000	15,569
Euros	21,846,427	906,849	44,357,440	(981,897)
Pounds Sterling	-	-	282,321	(40,958)
Mexican Pesos	22,341,322	1,196,238	10,233,988	(571,100)
Swiss Francs	-	-	24,562	(22)
Japanese Yens	24,394,571	66,991	36,859,429	(2,399,270)
Canadian Dollar	776,653	106	-	-
Offshore Yuan	60	-	-	-
Total		<u>2,473,236</u>		<u>(3,977,678)</u>
<i>Future contract - sale of currencies</i>				
Costa Rican Colones	-	-	9,252,600	131,525
Euros	23,455,064	(833,594)	43,272,452	1,051,068
Mexican Pesos	22,494,957	(1,478,597)	69,001,116	1,888,226
Pounds Sterling	19,538	71	272,366	42,083
Japanese Yen	24,451,198	(10,523)	36,934,242	2,473,995
Canadian Dollar	771,694	1,100	-	-
Swiss Franc	115,182	(191)	-	-
Offshore Yuan	60	-	-	-
Total		<u>(2,321,734)</u>		<u>5,586,897</u>

The average maturity of these contracts is 3.07 months (December 31, 2016: 2.73 months).

During the period ended June 30, 2017, the Bank recognized a profit of B/.784,219 (2016: gain of B/.97,770) in the interim condensed consolidated statement of profit or loss, as a result of the purchasing and selling operations of foreign currencies through foreign contracts based on foreign currency term. (See Note 6).

## 11.2. Interest rate swap

### Interest rate swaps:

As at June 30, 2017, the Bank recorded ten contracts (December 31, 2016: eight contracts) of interest rate swap for a nominal value of B/.71,308,891 (December 31, 2016: B /. 67,057,504) and fair value recorded in the asset for B/.1,459,440 (December 31, 2016: B/.1,926,944) with maturity date from September 2019 to February 2027.

Additionally, as at June 30, 2017, the Bank had six contracts (December 31, 2016: six contracts) registered with interest rate swaps for a nominal value of B/.57,308,891 (December 31, 2016: B/.61,057,504) and fair value recorded in liabilities of B/.885,653 (December 31, 2016: B/.1,286,942) with maturity date from September 2019 to April 2026.

### 11.2.1. Fair value hedge

#### Fair value hedges of interest rate risk:

The Bank uses interest rate swaps to hedge its exposure to changes in the fair values of its fixed rate financial instruments or assets attributable to changes in market interest rates.

Fair values of derivatives designated as fair value hedges are as follows:

	<b>June 30 2017 (Unaudited)</b>		<b>December 31 2016 (Audited)</b>	
	<b>Nominal value</b>	<b>Fair value</b>	<b>Nominal value</b>	<b>Fair value</b>
Interest rate swaps	<u>101,930,000</u>	<u>(1,138,775)</u>	<u>101,930,000</u>	<u>(1,066,471)</u>

Fair values of derivatives designated as fair value hedges are as follows:

	<b>June 30 2017 (Unaudited)</b>		<b>December 31 2016 (Audited)</b>	
	<b>Nominal value</b>	<b>Fair value</b>	<b>Nominal value</b>	<b>Fair value</b>
Forward of titles	<u>850,000</u>	<u>2,943</u>	<u>-</u>	<u>-</u>

## 12. Loans

The loan portfolio has the following breakdown:

	June 30 2017 (Unaudited)			December 31 2016 (Audited)		
	Internal	External	Total	Internal	External	Total
<b>Corporate:</b>						
Commercial	1,661,737,830	51,324,033	1,713,061,863	1,613,881,771	71,976,942	1,685,858,713
Industrial	419,940,521	226,400,818	646,341,339	372,898,489	270,200,630	643,099,119
Agricultural	144,865,668	85,544,600	230,410,268	126,816,217	101,003,255	227,819,472
Construction	1,287,312,175	-	1,287,312,175	1,057,252,901	-	1,057,252,901
Financial companies	7,960,361	-	7,960,361	8,952,013	7,522,281	16,474,294
Cooperatives	4,530,972	-	4,530,972	4,976,885	-	4,976,885
<b>Total corporate</b>	<u>3,526,347,527</u>	<u>363,269,451</u>	<u>3,889,616,978</u>	<u>3,184,778,276</u>	<u>450,703,108</u>	<u>3,635,481,384</u>
<b>Consumer:</b>						
Personal	884,948,853	-	884,948,853	884,248,968	-	884,248,968
Residential mortgage	2,187,010,377	-	2,187,010,377	2,140,352,527	-	2,140,352,527
Credit cards	240,617,240	-	240,617,240	239,343,575	-	239,343,575
Vehicles	142,583,150	-	142,583,150	160,810,717	-	160,810,717
Financial leasing receivable	141,136,240	-	141,136,240	137,936,871	-	137,936,871
<b>Total consumer</b>	<u>3,596,295,860</u>	<u>-</u>	<u>3,596,295,860</u>	<u>3,562,692,658</u>	<u>-</u>	<u>3,562,692,658</u>
<b>Government:</b>						
Government	45,580,280	-	45,580,280	67,699,759	-	67,699,759
	<u>7,168,223,667</u>	<u>363,269,451</u>	<u>7,531,493,118</u>	<u>6,815,170,693</u>	<u>450,703,108</u>	<u>7,265,873,801</u>

The following are the loans classified by interest rate type:

	June 30 2017 (Unaudited)	December 31 2016 (Audited)
Fixed rate	2,146,818,410	1,881,080,428
Fixed rate with change option	2,647,666,908	2,557,330,097
Variable rate	2,737,007,800	2,827,463,276
	<u>7,531,493,118</u>	<u>7,265,873,801</u>

Loans for B/.498,805,456 (December 31, 2016: B/.494,496,769) were secured with time deposits and client savings accounts.

The movement of the allowance for loan losses impairment corresponding to continuing operations is as follows:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Balance at the beginning of the period	122,124,689	66,315,731
Provision of the period	49,803,053	101,927,464
Written-off loans	(38,720,810)	(60,119,876)
Recoveries	8,162,346	14,001,370
Balance at the end of the period	<u>141,369,278</u>	<u>122,124,689</u>

The loan portfolio includes financial leases receivable whose maturity profile is detailed below:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Minimum payments of financial leases receivable:		
Up to 1 year	4,357,332	3,387,353
From 1 to 3 years	42,491,214	38,157,296
From 3 to 5 years	78,550,590	82,737,091
5 years and more	33,696,422	31,352,301
Total minimum payments	<u>159,095,558</u>	<u>155,634,041</u>
Less: unearned interest	<u>(17,959,318)</u>	<u>(17,697,170)</u>
	<u>141,136,240</u>	<u>137,936,871</u>

As at June 30, 2017, the range of annual interest rates on financial leases ranges from 4.75% to 8.25% (December 31, 2016: 4.00% and 9.00%).

During the period ended June 30, 2017, the Bank recorded tax credits amounting to approximately B/.12,109,738 (December 31, 2016: B/.19,972,128), as interest income on the portfolio of preferred mortgage loans. As at June 30, 2017, it still has outstanding tax credits recognized by the tax authorities for the amount of B/.31,089,870 (December 31, 2016: B/.46,450,270). The Bank's Management estimates that it will not incur losses in the recovery of tax credits.

Detail of the tax credit is presented below:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Tax credit with resolution	31,195,742	10,365,220
Tax credit pending resolution	17,091,487	28,320,508
Tax credit pending validation	13,998,383	18,129,762
	<u>62,285,612</u>	<u>56,815,490</u>

This benefit is the equivalent of the difference between the income that would have been received by the Bank if it had charged the benchmark interest rate of the market that was in force during that year and the current income received as interest for each one of the prime mortgage loans.

### 13. Properties, furniture, equipment, and improvements, net of depreciation

The properties, furniture, equipment and improvements are summarized below:

	<b>June 30 2017 (Unaudited)</b>					
	<b>Land</b>	<b>Furniture and equipment</b>	<b>Improvements to leased premises</b>	<b>Buildings and improvements</b>	<b>Projects in process</b>	<b>Total</b>
<b>Cost:</b>						
At the beginning of the period	3,076,965	87,893,468	44,980,638	45,861,616	2,323,964	184,136,651
Additions	-	2,487,041	1,704,357	-	-	4,191,398
Disposals	-	(3,702,275)	(917,851)	(54,655)	-	(4,674,781)
Increases / decreases projects in process	-	-	-	-	(1,825,472)	(1,825,472)
At the end of the period	<u>3,076,965</u>	<u>86,678,234</u>	<u>45,767,144</u>	<u>45,806,961</u>	<u>498,492</u>	<u>181,827,796</u>
<b>Accumulated depreciation:</b>						
At the beginning of the period	-	67,356,585	12,104,231	23,813,191	-	103,274,007
Period expenses	-	4,007,806	1,487,721	1,043,086	-	6,538,613
Disposals	-	(3,623,449)	(664,417)	(16,667)	-	(4,304,533)
At the end of the period	<u>-</u>	<u>67,740,942</u>	<u>12,927,535</u>	<u>24,839,610</u>	<u>-</u>	<u>105,508,087</u>
Net balance	<u>3,076,965</u>	<u>18,937,292</u>	<u>32,839,609</u>	<u>20,967,351</u>	<u>498,492</u>	<u>76,319,709</u>

	<b>December 31 2016 (Audited)</b>					
	<b>Land</b>	<b>Furniture and equipment</b>	<b>Improvements to leased premises</b>	<b>Buildings and improvements</b>	<b>Projects in process</b>	<b>Total</b>
<b>Cost:</b>						
At the beginning of the year	3,520,716	86,434,656	47,953,134	59,507,228	1,847,495	199,263,229
Additions	-	8,525,523	871,860	443,100	-	9,840,483
Reclassification of assets held for sale (Note 24)	-	-	-	(7,956,549)	-	(7,956,549)
Balance of purchased subsidiary	-	208,764	-	-	-	208,764
Disposals	(443,751)	(7,275,475)	(3,844,356)	(6,132,163)	-	(17,695,745)
Increases / decreases projects in process	-	-	-	-	476,469	476,469
At the end of the year	<u>3,076,965</u>	<u>87,893,468</u>	<u>44,980,638</u>	<u>45,861,616</u>	<u>2,323,964</u>	<u>184,136,651</u>
<b>Accumulated depreciation:</b>						
At the beginning of the year	-	64,697,069	10,444,283	29,474,742	-	104,616,094
Year expenses	-	8,762,350	2,784,316	2,836,903	-	14,383,569
Reclassification of assets held for sale (Note 24)	-	-	-	(4,444,328)	-	(4,444,328)
Balance of purchased subsidiary	-	91,630	-	-	-	91,630
Disposals	-	(6,194,464)	(1,124,368)	(4,054,126)	-	(11,372,958)
At the end of the year	<u>-</u>	<u>67,356,585</u>	<u>12,104,231</u>	<u>23,813,191</u>	<u>-</u>	<u>103,274,007</u>
Net balance	<u>3,076,965</u>	<u>20,536,883</u>	<u>32,876,407</u>	<u>22,048,425</u>	<u>2,323,964</u>	<u>80,862,644</u>

During the period ended June 30, 2017, there were disposals for B/.366,349 (December 31, 2016: B/.4,168,624) and sales of assets for B/.3,899 (December 31, 2016: B/.2,154,163).

As of December 31, 2016 disclosure of projects in process was modified to match its presentation to that of 2017.

## 14. Goodwill and other intangible assets, net

### 14.1. Goodwill

Goodwill is presented below:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Balance at beginning and end of the period	<u>61,193,018</u>	<u>61,193,018</u>

Goodwill assigned to each business unit is detailed below:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Consumer	17,868,358	17,868,358
Corporate	<u>43,324,660</u>	<u>43,324,660</u>
	<u>61,193,018</u>	<u>61,193,018</u>

Goodwill is allocated to operating divisions that represent the lowest level at which goodwill is internally monitored for management purposes. The recoverable amounts of the personal financial services and commercial banking business units have been calculated based on their value in use. The value of the use of each business unit is determined by discounting the expected future cash flows from the continuous use of each unit. The calculation of the value in use is based on the following basic assumptions:

- Real operating results for the second quarter of 2017 were used, as well as expectations for the rest of the year based on observed performance and business plan. Future cash flows were projected using average growth rates based on the long-term assumptions of growth rates. The forecast period, which was determined in 5 years, is based on the long-term perspective of the Bank with respect to the operation of these units.
- The discount rate (before tax effects) of 9.50% was applied in determining the amounts payable for the personal financial services and commercial banking business units. This discount rate is calculated based on the CAPM (Capital Asset Pricing Model) model to determine the cost of equity allocated to these units.
- Long-term GDP growth was used as a perpetuity rate assumption.

The main assumptions described above may change as economic and market conditions change. The Bank estimates that possible changes in these assumptions are not expected to affect the recoverable amount of the business units or to decrease below the carrying amount.

#### 14.2. Software in use and in process

The summary of the software in use and in process is presented below:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Software in use	50,821,607	54,423,145
Software in process	4,744,973	3,166,596
Accumulated amortization	<u>(41,700,228)</u>	<u>(43,453,753)</u>
Net balance	<u>13,866,352</u>	<u>14,135,988</u>

The movement of the software in use is summarized as follows:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Balance at the beginning of the period	(43,453,753)	(59,459,113)
Amortization charged to expenses	(1,934,317)	(5,439,970)
Decreases	<u>3,687,842</u>	<u>21,445,330</u>
Balance at the end of the period	<u>(41,700,228)</u>	<u>(43,453,753)</u>

During the period ended June 30, 2017, impairment losses on intangible assets were recognized as derecognized for the sum of B/.163,701.

#### 15. Other assets

The other assets are summarized below:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Tax credits	62,285,612	56,815,490
Marketable and non-marketable real estate assets, net	19,873,501	14,658,191
Taxes and expenses paid in advance	17,709,838	18,846,664
Others	12,930,865	8,396,972
Severance funds	7,995,269	7,945,902
Accounts receivable and debit and credit transactions	3,813,516	5,149,359
Accounts receivable, stock exchange operations	2,310,638	-
Guarantee deposits	<u>667,712</u>	<u>689,884</u>
	<u>127,586,951</u>	<u>112,502,462</u>

The summary of marketable and non-marketable real estate assets is presented below:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Balance at the beginning of the period	14,658,191	3,395,914
Additions	4,859,385	9,908,851
Sales and disposals	(166,861)	(1,626,233)
Reclassification of assets held for sale (Note 24)	712,284	3,684,891
Impairment	(189,498)	(705,232)
Balance at the end of the period	<u>19,873,501</u>	<u>14,658,191</u>

## 16. Borrowings

The borrowings are summarized below:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Obligations with foreign financial institutions for the financing of foreign trade, with various maturities up to December 2017 (2016: until July 2017) and interest rates between 1.80% and 2.15% (2016: 1.50% and 1.89%)	185,083,120	138,353,357
Obligations with foreign financial institutions for short and medium term liquidity management with various maturities up to April 2020 (2016: until July 2018) and interest rates between 1.35% and 3.67% (2016: 1.00% and 3.11%)	912,884,215	964,311,378
Obligations with local financial institutions for the management of short and medium term liquidity with various maturities up to December 2018 (2016: up to December 2018) and interest rates between 2.87% and 4.02% (2016: 2.52% and 3.74%)	55,224,767	42,059,953
Obligations with multilateral entities for the management of long-term liquidity, with maturities up to November 2018 (2016: November 2018) and interest rates around 3.08% (2016: around 2.81%)	40,088,012	40,046,971
	<u>1,193,280,114</u>	<u>1,184,771,659</u>

On April 28, 2017, Citibank, N.A., granted Banistmo S.A., a loan for B/.39,000,000 maturing on April 27, 2018, guaranteed with Negotiable Certificates of Participation (CERPANES) with a nominal value in books as at June 30, 2017, for B/.50,147,412 (December 31, 2016: B/.60,445,391) and a market value of B/.54,115,486 (December 31, 2016: B/.64,846,598). (See Note 10).

On October 6, 2014, the Bank of Tokyo Mitsubishi UFJ, JP Morgan and Wells Fargo structured a global syndicated loan to Banistmo S.A for B/.400,000,000 with maturity on October 6, 2017.

As at June 30, 2017, the Bank reflected a percentage of non-accrued interests on loans above the required maximum (3% of the total loan) under the terms of the Bank's bilateral loan agreement. This bilateral loan has a carrying amount of B/.20,000,000 maturing in July 2018 and interest rate of 2.77%.

The aforementioned situation was not recurrent and was resolved as at July 31, 2017. As a result, prior to the issuance of these consolidated financial statements, a relinquishment or "waiver" to claim payment of the same was obtained from the bank that participated in said bilateral loans.

## 17. Other liabilities

Details of the other liabilities are presented below:

	June 30 2017 (Unaudited)	December 31 2016 (Audited)
Checks in circulation	34,733,771	44,098,310
Transitional accounts	31,870,405	36,087,138
Prepaid insurance client accounts payable	24,160,425	22,294,721
Unclaimed client balances	20,642,016	20,294,964
Other liabilities payable	20,063,459	24,087,555
Retained funds for litigation matters	16,640,649	17,397,407
Accumulated expenses	11,727,779	17,406,120
Income tax and other taxes	11,459,636	6,845,598
Employee provisions payable	11,072,124	10,979,569
FECI payable	10,297,514	7,814,873
Loyalty reserve	3,356,617	7,303,177
Account payable - exchange transactions	2,310,638	-
Employee benefits (Note 18)	2,121,485	2,215,809
Commissions to be deferred	1,540,882	2,220,877
C.S.S. payable	1,511,955	1,837,491
Cashier checks	454,956	2,122,554
	<u>203,964,311</u>	<u>223,006,163</u>

For the period ended June 30, 2017, the Bank decreased its loyalty reserve by the amount of B/.3,973,007 due to expired and unused points.

## 18. Employee benefits

They include all types of remuneration that the Bank provides to its workers in return for their services. Both long-term benefits and post-employment benefits are measured under an actuarial methodology, which involves actuarial calculations that require assumptions about future events.

Post-employment benefits

Defined benefit pension plan

The Bank offers a defined benefit pension plan based on average salaries paid during the most recent 120 months prior to the employee's retirement date and years of service. This individual plan covers a certain group of employees who were employed by Chase Manhattan Corporation, N.A. (Merged with Banistmo before "HSBC Bank Panama" in 2000) as of July 31, 2000, and who became employees of Banistmo S.A. and Subsidiaries as of August 1, 2000. The right to this plan is obtained by completing 10 years of service with the organization. As at June 2017, there are 62 participants (31 participants with deferred benefits and 31 participants receiving benefits) included in this plan:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Balance at the beginning of the period	2,215,809	2,123,462
Cost of current service	-	1,000
Interest expense	130,199	106,000
Gains (actuarial losses) derived from changes in assumptions	-	158,675
Benefits paid	<u>(224,523)</u>	<u>(173,328)</u>
Balance at end of period	<u>2,121,485</u>	<u>2,215,809</u>

These funds are included in the figures of employee provisions payable - other creditors, within the interim condensed consolidated statement of financial position.

Assets plan

The Bank has established an asset plan to ensure the benefits promised to its employees entitled to participate in the pension plan as former Chase employees, under the terms described above and to comply with the obligations described in the Panamanian labor code, which specifies the terms to ensure the availability of resources for the payment to be made in the event of an employee termination (voluntary or non-voluntary) or resignation.

The asset plan is invested in term deposit certificates, in order to reduce the investment risk. The plan is managed by an independent fund and the allocation of assets by investment class and species is reviewed periodically and, when necessary, adjusted according to the investment strategy. The investment assets of the plan are measured at fair value using significant unobservable data and are, therefore, classified as Level 3.

The assumption of expected return on assets represents the long-term rate of return based on historical returns, asset volatility trend, and past fund experience.

The components of the periodic net cost of the aforementioned plans and the total charges (credits) recognized in the interim condensed consolidated statement of profit or loss are as follows:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Balance at the beginning of the period	1,859,064	1,932,826
Interest income	15,334	99,566
Benefits paid	<u>(224,523)</u>	<u>(173,328)</u>
Balance at the end of the period	<u>1,649,875</u>	<u>1,859,064</u>

The economic assumptions used in determining the present actuarial value of the pension obligation and the projected pension obligations for the plan years, in nominal terms, were as follows:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Discount rate	3.10%	3.10%
Salary increase	3.00%	3.00%
Long-term price inflation	2.00%	2.00%
Growth of pensions	0.00%	0.00%

The interest rate to be used to discount the post-employment benefits payable to workers for plans with and without assets should be determined using market yields, at the balance sheet date, corresponding to high-quality corporate bond issues or corporate obligations. In countries where there is no broad market for such securities, the yield corresponding to the bonds issued by the Public Administration, at the balance sheet date, should be used. In any case, both the currency and the term of the corporate or public bonds must correspond to the currency and the estimated payment term for the payment of the post-employment benefits obligations.

According to the information corresponding to June 30, 2017, the appropriate rate for the maturity of the pension maturity period for the pension and seniority premium plan (estimated at 8 years) is 3.10% per year (approximated nearer to 0.10%), which is consistent with the yield curve of such bonds for 7 years (3.07%) and 15 years (3.35%).

#### Sensitivity analysis

Defined Benefit Obligations (DBOs) were calculated using the Projected Unit Credit method. Obligations and expenses will change in the future as a result of actuarial methods and assumptions, information of participants, provisions of the plan and regulation, or as a result of future gains and losses.

	<b>(Increase/Reduction)</b>	<b>Effect in DBO</b>
Discount rate	3.10%	Increase of 0.50%
Discount rate	3.10%	Reduction of 0.50%
Salary increase	3.00%	Increase of 0.50%
Salary increase	3.00%	Reduction of 0.50%
Mortality	RP-200	Increasing the life expectancy of plan participants by one year.
		3.00%

## 19. Common shares

The composition of capital common shares is summarized as follows:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
<b>Number of authorized shares with a nominal value of B/.1 each</b>	<u>20,000,000</u>	<u>20,000,000</u>
Issued and outstanding shares Balance at beginning and end of the period	<u>11,325,781</u>	<u>11,325,781</u>
Additional paid-in capital Balance at beginning and end of the period	<u>743,744,192</u>	<u>743,744,192</u>
Total capital	<u>755,069,973</u>	<u>755,069,973</u>

## 20. Commitments and contingencies

In the normal course of its operations, the Bank maintains financial instruments with off-balance sheet risks to meet the financial needs of its customers. These financial instruments include letters of credit, guarantees and loan commitments that involve, to varying degrees, elements of credit risk.

Guarantees issued by customer orders, commercial letters of credit and loan commitments entail a certain element of risk of loss in case of default by the client, net of the tangible guarantees that cover these transactions. The Bank's credit policies and procedures to approve contingent credit are the same as those used to extend loans. Management does not anticipate that the Bank will incur material losses resulting from contingent claims for the benefit of clients.

Financial instruments with off-balance credit risk not included in the interim condensed consolidated statement of financial position are detailed below:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Letters of credit	92,276,644	74,744,615
Guarantees, bonds, and others	556,886,439	496,890,008
Loan commitment	<u>1,081,749,730</u>	<u>1,141,809,493</u>
	<u>1,730,912,813</u>	<u>1,713,444,116</u>

As at June 30, 2017, the Bank maintains financial instruments with credit risk outside the interim consolidated of financial position classified under the categories of Normal and Special Mention in compliance with Agreement No. 4-2013. For the latter category, the Bank has established a reserve for B/.98,850 (December 31, 2016: B/.7,093,482) in the creditors account others in the interim condensed consolidated statement of financial position. (See Note 3).

As at June 30, 2017, there were legal claims filed against the Bank and its subsidiaries on cases categorized for an amount of B/.1,248,884 (December 31, 2016: B/.4,326,949) plus interest and legal costs. The Bank's Management and its legal advisors consider that the result of these processes is not expected to have a material adverse effect on the Bank's consolidated financial position. For cases with an unfavorable outcome, the Bank maintains a reserve of B/.309,601 (December 31, 2016: B/.1,228,294) in the account of several creditors in the interim condensed consolidated statement of financial position.

The value of the annual lease payments of occupancy contracts for the coming years are as follows:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
2017	6,326,002	12,649,290
2018	11,975,292	11,738,604
2019	10,279,434	9,945,693
2020	8,958,988	8,765,913
More than 5 years	134,471,255	134,456,760

During the period ended June 30, 2017, the premises lease expense amounted to B/.6,553,186 (2016: B/.6,406,292).

## 21. Balances and transactions with related parties

The interim condensed consolidated statement of financial position and the interim condensed consolidated statement of profit or loss include balances and transactions with related parties. The parties related to the Bancolombia Group include transactions with Bancolombia, S.A. (Head office - Colombia), Banco Agrícola, S.A. El Salvador, Bancolombia (Panama), S.A., Bancolombia Cayman S.A., Bancolombia Puerto Rico, Banco Agromercantil de Guatemala, S.A., Mercom Bank LTD and G.A.H. (Grupo Agromercantil Holding), which are summarized as follows:

	<b>Directors and key management personnel</b>		<b>Bancolombia Group</b>	
	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
<b>Assets</b>				
Cash and cash equivalents	-	-	14,933,249	11,213,377
Investment in securities	-	-	1,937,465	470,651
Loans	5,542,584	6,914,435	-	-

No provisions for impairment of financial assets with related parties have been recognized.

Loans to directors and key management personnel are granted with the same terms and conditions as are available to other employees. The terms and conditions are based on those granted to third parties adjusted by a lower credit risk.

Loans to directors as at June 30, 2017 amount to B/.5,542,584 (December 31, 2016: B/.6,914,435) and have an average annual interest rate of 3.36% (December 31, 2016: 3.04%). No long-term or post-employment benefits have been granted to directors or key management personnel.

	Directors and key management personnel		Bancolombia Group	
	June 30 2017 (Unaudited)	December 31 2016 (Audited)	June 30 2017 (Unaudited)	December 31 2016 (Audited)
<b>Liabilities</b>				
Customer deposits	985,679	829,038	15,344,510	13,465,030
Interbank deposits	-	-	210,066,417	209,621,006
Borrowings	-	-	151,285,201	151,268,541
Other creditors	-	-	235,309	233,297

For the period ended June 30, 2017, the following items of income and expenses are included in the aggregate amounts resulting from the transactions described above:

	Directors and management key personnel		Bancolombia Group	
	June 30 (Unaudited) 2017	June 30 (Unaudited) 2016	June 30 (Unaudited) 2017	June 30 (Unaudited) 2016
<b>Interest income:</b>				
Loans	100,984	58,778	-	-
Deposits	-	-	32,562	41,148
Other income	-	-	22,233	-
<b>Interest expense on:</b>				
Deposits	2,922	6,664	1,464,490	823,422
Borrowings	-	-	2,125,916	1,410,460
<b>Banking services and others:</b>				
Commission expenses	-	-	1,035,987	-
<b>General and administrative expenses:</b>				
Salaries and other personnel costs	2,553,769	1,609,181	-	-

For the period ended June 30, 2017, a daily allowance of B/.33,500 (2016: B/.27,000) was paid for attendance at Board of Directors' meetings and support committees.

## 22. Assets under management

The Bank holds the accounts of the trusts it administers in the memorandum accounts. The total of net trusts administered amounted to B/.3,285,248,940 (2016: B/.3,380,105,868), as detailed below:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Total assets	4,008,101,619	4,176,679,812
Total liabilities	<u>(722,852,679)</u>	<u>(796,573,944)</u>
Total trusts, net	<u>3,285,248,940</u>	<u>3,380,105,868</u>

The Bank provides custody services for clients' securities through third parties. As at June 30, 2017, the value of assets under administration amounted to approximately B/.1,492,590,119 (December 31, 2016: B/.1,271,007,164).

## 23. Fair value of financial instruments

Fair values of financial assets and financial liabilities traded in active markets are based on quoted market prices or price quotes of a supplier. For all other financial instruments, the Bank determines the fair value using other valuation techniques.

### 23.1. Valuation models

The Bank establishes a fair value hierarchy that classifies the input data of valuation techniques used to measure fair value in three levels:

- Level 1: Quoted prices (unadjusted) in active markets for assets or liabilities identical to those that the Bank can access at the measurement date.
- Level 2: Input data other than quoted prices included in Level 1 that are observable for the assets or liabilities, directly and indirectly. This category includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets or other valuation techniques where significant input data are directly or indirectly observable in a market.
- Level 3: This category covers all assets or liabilities in which valuation techniques include unobservable input data and that have a significant effect on the measurement of fair value. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable assumptions or adjustments reflect the difference between instruments.

The measurement of the fair value of financial instruments generally involves a high degree of complexity and requires the application of judgments, especially when the models use unobservable (Level 3) input data based on the assumptions that would be used in the market to determine the price of the asset or liability.

Transfers between the aforementioned fair value levels are assumed as occurring at the end of the accounting period.

Financial assets and liabilities recorded at fair value in the interim condensed consolidated financial position of the Bank mainly include derivatives, debt and equity securities classified at fair value through profit or loss and at fair value through profit or loss, respectively.

### Debt securities

Valuation techniques include current net present value and discounted cash flow models, compared to similar instruments for which market observable prices and other valuation models exist. Assumptions and input data used in valuation techniques include risk and benchmark free interest rates, credit margins and other premiums used in the estimation of discount rates, bond and equity prices, types of foreign exchange, equities and equity index prices, and expected price volatility and price correlations.

### Participative securities

Valuation techniques include methodologies such as:

- Linear regression, which allows us to find a company value that includes not only the company's indicators, but also its relative performance against the companies in the sample.
- Comparable sample, through which the multiple of the sample of equity value/carrying amount. This value is adjusted to the entity according to the profitability that this company has regarding the expected profitability for a similar company.
- In the case of investment funds, the market value of the fund is used, disclosed in the interim condensed consolidated statement of changes in equity of the entity.

### Derivatives

Derivatives entered by the Bank are forward contracts and OTC traded swaps and, as such, are valued using internal valuation techniques as there are no quoted prices for such instruments. For OTC derivatives, transactions in liquid markets are valued using industry standard valuation models. To the extent applicable, these models project future cash flows and discount future quantities by bringing them to present value, using observable market-based inputs that include interest rate curves, foreign currency exchange rates, and forward and spot prices for currencies.

In addition, the Bank measures the credit risk effects of its counterparties and its own risk by determining the fair value of derivatives affected by credit risk, through a credit value adjustment (CVA), and by which the Bank creates a provision against possible counterparty default or due to Bank's credit risk (DVA).

The purpose of using a valuation technique is to estimate the price at which an orderly sale of the asset or transfer of the liability between market participants at the measurement date would take place under current market conditions.

The decision to whether a market is considered active may include, but is not limited to, consideration of factors such as the magnitude and frequency of commercial activity, the availability of prices and the magnitude of offers and transactions. In markets that are not active, the assurance that the transaction price provides evidence of fair value or that it can determine the adjustments to the transaction prices that are necessary to measure the fair value of the instrument, requires additional work during the valuation process.

An instrument as a whole is classified as using unobservable variables (that is Level 3) if, in the opinion of Management, a significant portion of the fair value of the instrument and/or initial gain ("the gain or loss on day 1") is driven by non-observable variables.

“Unobservable” in context means that there are few or no current data available in the market to determine what the price of a transaction would be. Generally, this does not mean that there are no available market data types on which to base the fair value determination (for example price data may be used).

Furthermore, in some cases, most fair values derived from a valuation technique with significant unobservable inputs data may be attributable to observable variables. Consequently, the effect of uncertainty in the determination of unobservable variables will be restricted to the uncertainty about the overall fair value of the financial instrument being measured.

The fair value of a portfolio of financial instruments quoted in an active market is calculated as the product of the number of units multiplied by their quoted price.

For all other financial instruments whose fair value calculation uses other valuation techniques, the following are considered: when market prices are not available, and certain assumptions are incorporated that the Bank believes would be used by a market participant to establish the fair value. Adjustments are made when the Bank considers that there are additional considerations not included in the valuation model.

The lack of liquidity and of activity in the asset-backed securities market have resulted in less available observable data.

### **23.2. Valuation framework**

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a control function, which is independent of the service platform (“Front Office”) and which has overall responsibility for independent verification of trading results and investment operations and all significant measurements of the fair value.

These specific controls include:

- Verification of observable prices through the challenge process.
- A process of review and approval of valuation methodologies by the corresponding agency.
- Analysis and investigation of significant movements in daily valuation.
- Analysis of the impairment.
- Assessment and awareness of Level 3 instruments.
- Verification of investments’ valuation and the risk management area reports the valuation results of the portfolio.

### 23.3. Financial instruments measured at fair value - fair value levels

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

	<b>June 30 2017 (Unaudited)</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Securities at fair value with changes in profit or loss:				
Corporate bonds	31,826,692	25,774,375	4,762,484	1,289,833
Republic of Mexico bonds	4,248,074	4,248,074	-	-
United States of America bonds	4,019,515	4,019,515	-	-
Republic of Panama bonds	19,614,390	-	19,614,390	-
Republic of Colombia bonds	1,976,553	1,976,553	-	-
Republic of Costa Rica bonds	10,571,293	6,004,800	4,566,493	-
Derivate asset instruments	4,181,244	2,943	2,202,955	1,975,346
Securities available for sale:				
Share capital	25,576,182	-	-	25,576,182
United States of America bonds	184,858,107	184,858,107	-	-
Republic of Panama bonds	297,659,796	18,797,183	278,862,613	-
Certificates of Participation (CERPAN)	72,179,060	-	72,179,060	-
<b>Total</b>	<b>656,710,906</b>	<b>245,681,550</b>	<b>382,187,995</b>	<b>28,841,361</b>
Derivative liabilities instruments	(4,591,787)	-	(3,038,620)	(1,553,167)
	<b>December 31 2016 (Audited)</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Securities at fair value with changes in profit or loss:				
Corporate bonds	31,993,996	27,904,654	-	4,089,342
Republic of Mexico bonds	57,341,712	57,341,712	-	-
United States of America bonds	11,764,258	11,764,258	-	-
Republic of Panama bonds	10,302,089	2,033,866	8,268,223	-
Republic of Costa Rica bonds	9,171,982	2,928,850	6,243,132	-
Derivative assets instruments	7,670,868	-	3,334,945	4,335,923
Securities available for sale:				
Share capital	27,901,917	-	-	27,901,917
Republic of Mexico bonds	3,300,579	3,300,579	-	-
Republic of Colombia bonds	42,483,944	42,483,944	-	-
United States of America bonds	94,865,952	94,865,952	-	-
Republic of Panama bonds	262,629,218	8,782,133	253,847,085	-
Certificates of Participation (CERPAN)	75,741,614	-	75,741,614	-
<b>Total</b>	<b>635,168,129</b>	<b>251,405,948</b>	<b>347,434,999</b>	<b>36,327,182</b>
Derivative liabilities instruments	(6,488,118)	-	(5,011,226)	(1,476,892)

Management uses the following valuation techniques for Level 2 financial instruments:

<b>Financial instrument</b>	<b>Valuation technique</b>
Debt instrument – government, multilateral financial and corporate institutions	The price is taken from the main supplier hired by the Bank, and the liquidity of the bond is evaluated.
Certificates of Participation (CERPAN)	CERPAN's quoted prices published weekly by the Public Servant Savings and Pension Capitalization System (Sistema de Ahorro y Capitalización de Pensiones de los Servidores Públicos) multiplied by the number of quotas of each CERPAN.
Derivative instruments - swaps	Cash flow model between fixed and variable rates using their respective yield curves price of our provider selected by the Bank.
Derivative instruments - forward purchase/sale of currencies	Discounted cash flow model using market data to create curves or implicit discount rates for each currency, the price provider selected by the Bank.

#### **23.4. Measurement at fair value - Level 3**

The table below shows a reconciliation of the opening and closing balance of the financial instruments measured at fair value over on recurrent basis classified on Level 3:

	<b>June 30 2017 (Unaudited)</b>			<b>Total</b>
	<b>Share capital</b>	<b>Corporate bonds</b>	<b>Derivatives</b>	
Balance at the beginning of the period	27,901,917	4,089,342	2,859,031	34,850,290
Total gains (losses):				
In the interim condensed consolidated statement of profit or loss	-	111,434	-	111,434
In the interim condensed consolidated statement of comprehensive income	(1,469,616)	-	-	(1,469,616)
Transfer of balance at market value of Level 2	-	(2,138,119)		(2,138,119)
Net profit/loss of negotiation			477,720	477,720
Purchases	-	1,286,950	126,589	1,413,539
Settlements and others	(856,119)	(1,832,332)	(3,041,161)	(5,729,612)
Premiums and discounts	-	(225,491)	-	(225,491)
Accrued interest receivable	-	(1,951)	-	(1,951)
Balance at end of period	<u>25,576,182</u>	<u>1,289,833</u>	<u>422,179</u>	<u>27,288,194</u>

	<b>December 31 (Audited) 2016</b>			
	<b>Share capital</b>	<b>Corporate bonds</b>	<b>Derivatives</b>	<b>Total</b>
Balance at beginning of year	7,911,359	5,331,000	-	13,242,359
Total gains (losses):				
In the consolidated statement of profit or loss	-	(64,459)	-	(64,459)
In the consolidated statement of comprehensive income	13,962,258	-	-	13,962,258
Transfer of shares of cost fair value	6,056,402	-	-	6,056,402
Transfer of balance at market value of Level 2	-	-	2,859,031	2,859,031
Purchases	-	7,798,649	-	7,798,649
Settlements and others	(28,102)	(9,116,849)	-	(9,144,951)
Premiums and discounts	-	155,607	-	155,607
Accrued interest receivable	-	(14,606)	-	(14,606)
Balance at end of year	<u>27,901,917</u>	<u>4,089,342</u>	<u>2,859,031</u>	<u>34,850,290</u>

Detailed below are the total gains for the period as shown in the interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of comprehensive income:

	<b>June 30 2017 (Unaudited)</b>		
	<b>Share capital</b>	<b>Corporate bonds</b>	<b>Total</b>
Total of gains included in the interim condensed consolidated statement of profit or loss:			
Gains on financial instruments, net	-	4,244	4,244
Total gains recognized in the interim condensed consolidated statement of comprehensive income:			
Net changes in valuation of securities available for sale	<u>(1,469,616)</u>	<u>-</u>	<u>(1,469,616)</u>

	<b>June 30 2016 (Unaudited)</b>		
	<b>Share capital</b>	<b>Corporate bonds</b>	<b>Total</b>
Total of gains included in the interim condensed consolidated statement of profit or loss:			
Gains on financial instruments, net	-	523	523
Total gains recognized in the interim condensed consolidated statement of comprehensive income:			
Net changes in valuation of securities available for sale	21,239	-	21,239

The table below shows information about significant unobservable variables uses on June 30 de 2017, in measuring the financial instruments categorized as Level 3 in the fair value:

<b>Type of instrument</b>	<b>Valuation technique</b>	<b>Significant unobservable input data</b>	<b>Criteria or range of estimation</b>	<b>Fair value - sensitivity measure to inputs</b>
Corporate bonds	Valuation of discounted cash flows	Calculation for obtaining the margin taking into account the market price and the reference curve or the theoretical price and the reference curve.	Margins between 1.8% and 2.1% in favorable scenarios and margins between 2.6% and 2.3% in unfavorable scenarios.	Increase or decrease risk margin in basis points applied to a benchmark yield curve, resulting in a lower and higher market value, respectively.
Variable income securities	A comparable sample is taken, and the multiple of the sample equity value/ carrying amount. This value is adjusted to the entity according to the profitability that the company has regarding the expected return for a company of these characteristics located in the country. The resulting value is the equity multiple applied.	Reference price or value of the unobservable share value.	A multiple of the sample of equity value/carrying amount. This value is adjusted to the entity according to the profitability that this company has regarding the expected return for a company of these characteristics located in the country. The resulting value is the equity multiple applied.	% of lower or higher variation on reference values.

For sensitivity estimates at the Level 3 fair value on debt instruments, whose trading lacks liquidity and availability of objective information, the Bank considers the use of the methodology of discounted future cash flows based on inputs such as yield curves plus a margin.

Other instruments such as shares or capital instruments classified in Level 3 are valued under the following method: a comparable sample is taken, in order to obtain its multiples in terms of equity/carrying amount. This value is set to the entity according to the profitability that the company has regarding the expected return for a company of these characteristics located in the country. The resulting value is the multiple of equity applied.

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used for reasonably possible alternative assumptions would have the following effects:

	<b>June 30 2017 (Unaudited)</b>			
	<b>Effect in gains (loss)</b>		<b>Effect in other comprehensive income</b>	
	<b>Favorable</b>	<b>(Unfavorable)</b>	<b>Favorable</b>	<b>(Unfavorable)</b>
Fixed income	23,617	(9,732)	-	-
Variable income	-	-	1,278,809	(2,557,618)
	<b>December 31 2016 (Audited)</b>			
	<b>Effect in gains (loss)</b>		<b>Effect in other comprehensive income</b>	
	<b>Favorable</b>	<b>(Unfavorable)</b>	<b>Favorable</b>	<b>(Unfavorable)</b>
Fixed income	93,079	(24,705)	-	-
Variable income	-	-	1,395,096	(2,790,192)

The favorable and unfavorable effects of using reasonably possible alternative assumptions for the valuation of debt securities have been assigned to the model with respect to the use of unobservable inputs based on a percentage valuation of the price obtained or margin changes according to the valuation technique. For equity instruments with reference price, but lacking liquidity; the Bank sees 5% favorable and 10% unfavorable percentage change on its market value.

### 23.5. Financial instruments not measured at fair value

The following table analyzes the fair value of financial instruments that are not measured at fair value by Level:

	<b>June 30 2017 (Unaudited)</b>			<b>Fair value</b>	<b>Carrying amount</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>		
<b>Assets</b>					
Cash and cash effects	-	-	120,482,188	120,482,188	120,482,188
Demand deposits	-	-	353,046,597	353,046,597	353,046,597
Time deposits	-	-	382,080,000	382,080,000	382,650,467
Investment in securities	36,980,300	-	72,829,360	109,809,660	107,490,728
Loans	-	-	7,378,242,510	7,378,242,510	7,390,123,840
<b>Total assets</b>	<b>36,980,300</b>	<b>-</b>	<b>8,306,680,655</b>	<b>8,343,660,955</b>	<b>8,353,793,820</b>
<b>Liabilities</b>					
Customer deposits	-	2,823,664,218	3,535,334,706	6,358,998,924	6,335,134,649
Interbank deposits	-	-	549,824,518	549,824,518	548,190,045
Borrowings	-	-	1,195,450,316	1,195,450,316	1,193,280,114
<b>Total liabilities</b>	<b>-</b>	<b>2,823,664,218</b>	<b>5,280,609,540</b>	<b>8,104,273,758</b>	<b>8,076,604,808</b>
<b>December 31 2016 (Audited)</b>					
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value</b>	<b>Carrying amount</b>
<b>Assets</b>					
Cash and cash effects	-	-	203,946,735	203,946,735	203,946,735
Demand deposits	-	-	364,594,966	364,594,966	364,594,966
Time deposits	-	-	376,632,850	376,632,850	376,901,021
Investment in securities	36,224,438	-	71,847,805	108,072,243	107,496,176
Loans	-	-	7,153,137,061	7,153,137,061	7,143,749,112
<b>Total assets</b>	<b>36,224,438</b>	<b>-</b>	<b>8,170,159,417</b>	<b>8,206,383,855</b>	<b>8,196,688,010</b>
<b>Liabilities</b>					
Customer deposits	-	2,932,225,380	3,427,350,778	6,359,576,158	6,321,302,299
Interbank deposits	-	-	401,205,300	401,205,300	399,210,179
Borrowings	-	-	1,184,465,383	1,184,465,383	1,184,771,659
<b>Total liabilities</b>	<b>-</b>	<b>2,932,225,380</b>	<b>5,013,021,461</b>	<b>7,945,246,841</b>	<b>7,905,284,137</b>

The table below describes the valuation techniques and the input data used in financial assets and liabilities not measured at fair value classified within the fair value hierarchy in Levels 2 and 3:

Financial instrument	Valuation technique and entry data used
Cash, demand and time deposits, customers demand and saving deposits	The carrying amount of these financial instruments is used due to their short-term maturity.
Loans, customer time deposits, borrowings.	Represents the estimated discounted future cash flows using adequate market curves. Fair value represents the best estimate based on methodologies internally developed.

The following table summarizes the carrying amount and estimated fair value of significant financial assets and liabilities:

	June 30 2017 (Unaudited)						Fair value
	Loans	Securities at fair value with changes in profit or loss	Securities available for sale	Securities held to maturity	Others at amortized cost	Carrying amount	
<b>Assets</b>							
Cash and cash effects	-	-	-	-	120,482,188	120,482,188	120,482,188
Demand deposits	-	-	-	-	353,046,597	353,046,597	353,046,597
Time deposits	-	-	-	-	382,650,467	382,650,467	382,080,000
Investment in securities	-	72,256,517	580,564,505	107,490,728	-	760,311,750	762,630,682
Loans	<u>7,390,123,840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,390,123,840</u>	<u>7,378,242,510</u>
<b>Total</b>	<u>7,390,123,840</u>	<u>72,256,517</u>	<u>580,564,505</u>	<u>107,490,728</u>	<u>856,179,252</u>	<u>9,006,614,842</u>	<u>8,996,481,977</u>
<b>Liabilities</b>							
Customer deposits	-	-	-	-	6,335,134,649	6,335,134,649	6,358,998,924
Interbank deposits	-	-	-	-	548,190,045	548,190,045	549,824,518
Borrowings	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,193,280,114</u>	<u>1,193,280,114</u>	<u>1,195,450,316</u>
<b>Total</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,076,604,808</u>	<u>8,076,604,808</u>	<u>8,104,273,758</u>

	<b>December 31 2016 (Audited)</b>						
	<b>Loans</b>	<b>Securities at fair value with changes in profit or loss</b>	<b>Securities available for sale</b>	<b>Securities held to maturity</b>	<b>Others at amortized cost</b>	<b>Carrying amount</b>	<b>Fair value</b>
<b>Assets</b>							
Cash and cash effects	-	-	-	-	203,946,735	203,946,735	203,946,735
Demand deposits	-	-	-	-	364,594,966	364,594,966	364,594,966
Time deposits	-	-	-	-	376,901,021	376,901,021	376,632,850
Investment in securities	-	120,574,037	507,264,584	107,496,176	-	735,334,797	731,846,902
Loans	<u>7,143,749,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,143,749,112</u>	<u>7,153,137,061</u>
<b>Total</b>	<u>7,143,749,112</u>	<u>120,574,037</u>	<u>507,264,584</u>	<u>107,496,176</u>	<u>945,442,722</u>	<u>8,824,526,631</u>	<u>8,830,158,514</u>
<b>Liabilities</b>							
Customer deposits	-	-	-	-	6,321,302,299	6,321,302,299	6,359,576,158
Interbank deposits	-	-	-	-	399,210,179	399,210,179	401,205,300
Borrowings	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,184,771,659</u>	<u>1,184,771,659</u>	<u>1,184,465,383</u>
<b>Total</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,905,284,137</u>	<u>7,905,284,137</u>	<u>7,945,246,841</u>

## 24. Assets held for sale

A detail of the assets held for sale is as follows:

	<b>June 30 2017 (Unaudited)</b>	<b>Immovable property</b>	<b>Movable property</b>	<b>Total</b>
Balance at the beginning of the period		5,708,070	787,158	6,495,228
Additions		2,018,967	995,480	3,014,447
Disposals		(556,300)	(1,007,649)	(1,563,949)
Reclassification of marketable and non-marketable real estate assets, net (Note 15)		(712,284)	-	(712,284)
Impairment (Note 7)		(140,811)	(37,898)	(178,709)
Balance at end of period		<u>6,317,642</u>	<u>737,091</u>	<u>7,054,733</u>

<b>December 31 2016 (Audited)</b>	<b>Immovable property</b>	<b>Movable property</b>	<b>Total</b>
Balance at beginning of year	4,816,372	565,709	5,382,081
Additions	3,555,065	1,071,520	4,626,585
Disposals	(2,461,869)	(771,360)	(3,233,229)
Reclassification of marketable and non-marketable real estate assets, net (Note 15)	(3,684,891)	-	(3,684,891)
Reclassification of properties, furniture, equipment and improvements, net of depreciation (Note 13)	3,512,221	-	3,512,221
Impairment	(28,828)	(78,711)	(107,539)
Balance at end of year	<u>5,708,070</u>	<u>787,158</u>	<u>6,495,228</u>

By regulatory requirement as at June 30, 2017, the Bank holds a reserve for assets awarded for B/.2,661,520 (December 31, 2016: B/.2,244,067).

## **25. Main applicable laws and regulations**

The main laws and regulations applicable in the Republic of Panama are detailed below:

### **25.1. Banking Law**

Banking operations in the Republic of Panama are regulated and supervised by the Superintendency of Banks of Panama, in accordance with the law established by Executive Decree No. 52 of April 30, 2008, adopts the only text of Decree Law No. 9 of February 26, 1998, and as amended by Decree Law No. 2 of February 22, 2008, which establishes the banking regime in Panama and creates the Superintendency of Banks and the rules that govern it.

For purposes of compliance with prudential rules issued by the Superintendency of Banks of Panama, the Bank shall prepare a calculation of the credit reserve based on regulatory guidelines. In the event that the regulatory calculation is greater than the respective calculation determined under IFRS, the excess reserve will be recognized in a regulatory equity reserve.

### **25.2. Trust Law**

The fiduciary business and the trust fund in Panama are regulated and supervised by the Superintendency of Banks of Panama, pursuant to Law No. 1 of January 5, 1984, as amended by Law No. 21 of May 10, 2017.

### **25.3. Securities Law**

Brokerage operations in Panama are regulated by the Superintendency of Securities Market in accordance with the legislation stated in Decree Law No.1 of July 8, 1999, amended by Law No. 67 of September 1, 2011, issued by the Superintendency of Securities Market, which states that they are required to comply with the rules of capital adequacy, solvency ratio, capital fund, liquidity index, concentration of credit risk and structure expenses. Additionally, on September 18, 2013, the Superintendency of Securities Market issued Resolution No. 8-2013, where certain provisions of Agreement No. 4-2011 of June 27, 2011, on capital adequacy and their modalities are modified.

#### **25.4. Regulatory standards**

Regulatory standards issued by the Superintendency of Banks of Panama:

- Board of Directors' General Resolution SBP-GJD-003-2013 dated July 9, 2013, which establishes the accounting treatment for those differences that arise between the prudential regulations issued by the Superintendency of Banks and those by the International Financial Reporting Standards (IFRS).
- Agreement No. 4-2013 of May 28, 2013, which establishes provisions on the management and administration of credit risk inherent in the credit portfolio and operations outside the statement of financial position, including the general classification criteria of the credit facilities for the purpose of determining the specific and dynamic provisions for the hedges of the Bank's credit risk. In addition, this Agreement sets forth certain required minimum disclosures, in line with the disclosure requirements of IFRS, on the management and administration of credit risk.

This Agreement repeals in its entirety Agreement No. 6-2000 of 28 June 2000 and all its amendments, Agreement No. 6-2002 of 12 August 2002 and Article 7 of Agreement No. 2-2003 of March 12, 2003. This Agreement entered into force on September 30, 2014.

##### Specific Provisions

Agreement No. 4-2013 states that specific provisions arise from objective and concrete evidence of impairment. These provisions should be established for credit facilities classified in the following risk categories: special mention, substandard, doubtful, or unrecoverable, for individual credit facilities and a group of such facilities.

As of December 31, 2014, minimum, banks shall calculate and maintain at any time the amount of the specific provisions determined by the methodology specified in this Agreement, which takes into account the outstanding balance of each credit facility classified in any of the categories subject to provision, as mentioned in the previous paragraph; the present value of each available warrant as risk mitigation, as stated by type of guaranty in this Agreement; and a weighted table that is applied to the net balance exposed to loss on such credit facilities.

Article 34 of said Agreement establishes that all credits must be classified in the following five (5) categories, according to their collection risk and loan conditions, and establishes a minimum reserve for each classification: Standard 0%, Special Mention 2%, Substandard 15%, Doubtful 50%, and Unrecoverable 100%.

In the case that an excess on the specific provision computed under this Agreement vs. the provision calculated under the IFRS exists; this excess is accounted for in a regulatory reserve under equity as an increase or decrease allocated to or from retained earnings. The balance of regulatory reserve will not be considered as capital funds for purposes of computing certain index or prudential ratios mentioned in the Agreement.

The table below shows the balances of delinquent loans and overdue for major categories and amounts of specific provisions for each portfolio as required by Article 29 of Agreement No. 004-2013:

Classification	June 30 2017 (Unaudited)		December 31 2016 (Audited)	
	Portfolio	Reserves	Portfolio	Reserves
Standard	6,760,233,492	-	6,394,583,137	-
Special mention	259,469,653	23,938,038	393,804,807	28,547,517
Substandard	96,349,253	20,273,610	80,846,525	13,795,888
Doubtful	72,499,383	29,434,803	64,561,265	24,764,761
Unrecoverable	80,179,408	33,867,049	70,213,878	35,198,967
Gross amount	7,268,731,189	107,513,500	7,004,009,612	102,307,133
Total subsidiaries	335,764,677	8,029,735	322,737,275	5,685,737
Subtotal	7,604,495,866	115,543,235	7,326,746,887	107,992,870
Plus:				
Accrued interest receivable	26,616,425	-	34,055,393	-
Less:				
Interest and unearned discounted commissions	99,619,173	-	94,928,479	-
Total	7,531,493,118	115,543,235	7,265,873,801	107,992,870

The following is an analysis of the effect of the differences between the IFRS provision and Agreement No. 4-2013 resulting from regulatory provisions:

	June 30 2017 (Unaudited)	December 31 2016 (Audited)
Methodology of provisions under IFRS		
Individual	71,517,677	63,971,145
Collective	69,851,601	58,153,544
Total IFRS provisions	141,369,278	122,124,689
Regulatory provisions	115,543,235	107,992,870
Difference between IFRS provisions and regulations	25,826,043	14,131,819

Agreement No. 4-2013 defines as expired any credit facility whose non-payment of contractually agreed amounts is more than 90 days old. This term will be counted from the date stated for the fulfillment of the payments. Operations with a single payment at maturity and overdrafts will be considered past due when the seniority of the non-payment exceeds 30 days from the date on which the payment obligation is stated.

The classification of the Loans portfolio by maturity profile, based on Agreement No.4-2013.

**June 30  
2017  
(Unaudited)**

	<u>Current</u>	<u>Past due</u>	<u>Overdue</u>	<u>Total</u>
Corporate loans	3,798,867,365	18,815,678	110,386,312	3,928,069,355
Consumer loans	3,085,465,043	156,161,242	99,035,549	3,340,661,834
Subsidiaries	311,767,524	16,631,954	7,365,199	335,764,677
Subtotal	<u>7,196,099,932</u>	<u>191,608,874</u>	<u>216,787,060</u>	<u>7,604,495,866</u>
Plus:				
Accrued interest receivable	-	-	-	26,616,425
Less:				
Unearned discounted interests and commissions	-	-	-	99,619,173
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,531,493,118</u>
Specific reserve	39,765,515	7,617,553	60,130,432	107,513,500
Subsidiaries	2,379,736	1,383,761	4,266,238	8,029,735
Total	<u>42,145,251</u>	<u>9,001,314</u>	<u>64,396,670</u>	<u>115,543,235</u>

**December 31  
2016  
(Audited)**

	<u>Current</u>	<u>Past due</u>	<u>Overdue</u>	<u>Total</u>
Corporate loans	3,601,484,845	9,541,967	79,467,362	3,690,494,174
Consumer loans	3,084,212,365	145,818,949	83,484,124	3,313,515,438
Subsidiaries	292,450,869	22,044,420	8,241,986	322,737,275
Subtotal	<u>6,978,148,079</u>	<u>177,405,336</u>	<u>171,193,472</u>	<u>7,326,746,887</u>
Plus:				
Accrued interest receivable	-	-	-	34,055,393
Less:				
Unearned discounted interests and commissions	-	-	-	94,928,479
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,265,873,801</u>
Specific reserve	40,042,955	4,649,001	57,615,177	102,307,133
Subsidiaries	1,702,746	1,025,225	2,957,766	5,685,737
Total	<u>41,745,701</u>	<u>5,674,226</u>	<u>60,572,943</u>	<u>107,992,870</u>

Dynamic provision

Agreement No. 4-2013 states that the dynamic provision is a reserve constituted to meet possible future requirements for the creation of specific provisions, which is governed by prudential criteria specific to banking regulation. The dynamic provision is constituted on a quarterly basis, taking into account the data of the last day of the quarter.

Agreement No. 3-2016 establishes the rules for determining the weighted assets for credit risk and counterparty risk that must be applied in the dynamic provision. This Agreement will be effective as of the end of September 2016.

The dynamic provision amount is obtained by calculating the following components:

- Component 1: Is the amount obtained by multiplying the balance of risk-weighted assets, applied only to credit facilities classified under the standard category, and using the coefficient alpha 1.50%.
- Component 2: Is the amount obtained by multiplying the variation in the quarter of the risk-weighted assets, corresponding only to credit facilities classified in the standard category; if positive, by the coefficient beta 5%. If the variation is negative, the amount is zero.
- Component 3: Is the amount of the change in the balance of specific provisions in the quarter.

The dynamic provision amount is the sum of the two components, obtained from Components 1 and 2, less the third component, with its sign, of the amount obtained in Component 3; in other words, if the latter component is negative, it must be added. The amount of the dynamic provision must comply with the restrictions:

- It cannot be greater than 2.5% of the risk-weighted assets corresponding to the credit facilities classified in the standard category.
- It cannot be less than 1.25% of the risk-weighted assets corresponding to the credit facilities classified in the standard category.
- It cannot decrease with respect to the amount established in the previous quarter unless the decrease is attributed to the conversion of specific provisions. The Superintendency of Banks of Panama will establish the criteria for such conversion.

The dynamic provision is an equity item that increases or decreases with allocations to or from retained earnings. The credit balance of this dynamic provision is part of the regulatory capital but does not replace or compensate the capital adequacy requirements stated by the Superintendency of Banks of Panama.

The following table summarizes the balance of the dynamic provision made by the Bank and each of the following subsidiaries as at June 30, 2017:

	<b>June 30 2017 (Unaudited)</b>	<b>December 31 2016 (Audited)</b>
Banistmo S.A.	87,198,734	84,968,873
Leasing Banistmo S.A.	3,666,471	3,666,471
Financomer, S.A.	4,260,805	4,260,805
	<u>95,126,010</u>	<u>92,896,149</u>

The requirement to establish dynamic provisions is not applicable to microfinance banks, which must maintain an additional provision of 1% in the loan portfolio that has been classified in the standard category following the loan classification methodology that this agreement has stated for these microfinance banks.

### Regulatory reserve on loans under equity

Board of Directors' General Resolution of the Superintendency of Banks of Panama SBP-GJD-0003-2013 states that, in presenting its financial statements in conformity with IFRS, the Bank, when identifying the differences between the application of IFRS and the prudential rules issued by the Superintendency Bank, will follow the following methodology:

- Calculations of how accounting balances would be applied when applying the IFRS and the prudential rules issued by the Superintendency of Banks of Panama and comparing the respective figures.
- When the calculation made in accordance with IFRS results in a greater reserve or provision for the Bank than that resulting from the use of prudential standards, the Bank will account for IFRS figures.
- When the impact of the use of prudential rules results in a greater reserve or provision for the Bank, the effect of the use of IFRS will also be recorded in profit or loss and the difference between the IFRS and the prudential calculation will be appropriated from retained earnings, which will be transferred to a regulatory reserve in equity. In the event that the Bank does not have sufficient retained earnings, the difference will be presented as an accumulated deficit account.
- The regulatory reserve mentioned in the previous paragraph may not be reversed against retained earnings as long as there are differences between IFRS and prudential rules that originated it.

### Foreclosed assets

Regulatory standards issued by the Panamanian Superintendency of Banks, on equity reserve for foreclosed assets:

As of August 2009, the Bank takes into consideration the reasonable standard issued by the Superintendency of Banks of Panama, which requires banks to establish a reserve for assets available for sale based on Agreement No. 3-2009. The agreement sets a deadline of sale of the asset available for sale for five (5) years, counted from the date of registration in the Public Registry.

If, after the expiration of this period, the Bank has not sold the acquired real estate, it must make an independent appraisal of the asset to determine if its value has decreased, applying, in that case, the provisions of IFRS. The Bank shall create a reserve in the equity account to which the following allocations of undistributed profits will be made based on the value of the asset available for sale: first year, 10%; second year, 20%; third year, 35%; fourth year, 15% and, fifth year, 10%.

## 26. Non-consolidated structured entities

The following table describes the type of structured entity in which the Bank does not hold a share, but acts as a sponsor thereof. The Bank is considered as a sponsor of a structured entity when it facilitates its establishment.

Type of structured entity	Nature and purpose	Interest held by the Bank
Separate vehicles - Private trusts	To generate commissions on administrative services and collection and payment agent.  To guarantee the payments in the concept of principal, interest or any other concepts owed by the Trustor.	None

As at June 30, 2017, the Bank has no contractual obligation to provide financial or any other type of support to these non-consolidated structured entities.

## 27. Relevant facts

During the year ended December 31, 2016, an Economic Group with credit exposure with the Bank was incorporated into the OFAC list. The Superintendency of Banks of Panama, through announcements SBP-DR-N-3824-2016 of June 30, 2016, and SBP-DR-N-4072-2016 of July 13, 2016, has stated the classification categories to be applied to the claims of the debtors included on the OFAC list. In addition, the Bank has carried out the related assessments under IFRS and has classified these credits according to the applicable criteria.

As of December 31, 2016, the Economic Group has held an exposure in the Bank for B/.204,076,174. Provisions required under IFRSs and, according to regulatory standards, were incorporated in our books as of December 31, 2016, as disclosed in Notes 3 and 25 of these consolidated financial statements.

As at June 30, 2017, and, after receiving payments for principal, interest and other items resulting from the liquidation of the collateral, the remaining exposure to said Economic Group is less than B/.14,201,852 and is fully provisioned.

## 28. Approval of the interim condensed consolidated financial statements

The interim condensed consolidated financial statements for the period ended June 30, 2017 were approved by Management and authorized for issuance on August 24, 2017.

**FREE ENGLISH LANGUAGE TRANSLATION  
FROM SPANISH VERSION**

**Banistmo S.A. and Subsidiaries**

Consolidated financial statements for the year ended  
December 31, 2016 and Independent Auditors' Report  
of February 9, 2017

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**FREE ENGLISH LANGUAGE TRANSLATION  
FROM SPANISH VERSION**

**INDEPENDENT AUDITORS' REPORT**

To the Shareholder and Board of Directors of  
**Banistmo S.A.**

We have audited the accompanying consolidated statements of Banistmo S.A. and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position at December 31, 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements, and a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Banistmo S.A. and Subsidiaries** as at December 31, 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for Opinion**

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

**Other Matters**

The consolidated financial statements as at December 31, 2015 and for the year then ended, before they were retrospectively modified by Management, as described in the following paragraph, were audited by another auditor, whose report dated February 20, 2016 issued an unqualified opinion.

We call attention to what is indicated in Note 29 of the consolidated financial statements which describes that subsequent to the issuance of the consolidated financial statements for the year 2015, Management identified some events in the statement of cash flows that required to be modified retrospectively. As part of our audit of the consolidated financial statements for the year ended December 31, 2016, we also audited the adjustments described in Note 29 that were made to correct the consolidated statement of cash flows for the year 2015. In our opinion, said adjustments are adequate and have been applied adequately. We were not engaged to audit, revise or apply any procedure to the Group's consolidated financial statements for the year 2015, except in relation to the adjustments, and therefore, we do not express an opinion or any other form of assurance on the consolidated financial statements of the Group for the year 2015 as a whole.

## **Deloitte.**

### **Management's responsibilities and of the Corporate Governance and those Responsible for the Consolidated Financial Statements**

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

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

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

### **Auditor's 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 auditor's 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 International Standards of Accounting 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 International Standards of Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- We 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.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- We conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

**Deloitte .**

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

*Signed by Deloitte*

February 9, 2017  
Panama, Republic of Panama

## Banistmo S.A. and Subsidiaries

### Consolidated statement of financial position at December 31, 2016 (In balboas)

	Notes	2016	2015
<b>Assets</b>			
Cash and cash equivalents	3,9,22,24	945,442,722	946,888,205
Investments in securities	3,10,22,24	735,334,797	870,462,513
Derivatives	11,24	7,670,868	5,242,236
Loans	3,12,22,24,27	7,265,873,801	6,820,642,777
Allowance for impairment	3,12	(122,124,689)	(66,315,731)
Loan, net		<u>7,143,749,112</u>	<u>6,754,327,046</u>
Assets held for sale	25	6,495,228	5,382,081
Properties, furniture, equipment and improvements, net of depreciation	13	80,862,644	94,647,135
Goodwill and other intangible assets, net	3,14	75,329,006	76,542,610
Deferred tax	3,8	35,108,634	19,285,439
Clients' liabilities under acceptances		31,604,204	35,100,962
Other assets	15	112,502,462	113,046,291
Total assets		<u>9,174,099,677</u>	<u>8,920,924,518</u>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Customer deposits	3,22,24	6,321,302,299	6,251,575,575
Interbank deposits	3,22,24	399,210,179	352,620,368
Derivatives	11, 24	6,488,118	5,176,608
Borrowings	3,16,22,24	1,184,771,659	1,093,139,661
Pending acceptances		31,604,204	35,100,962
Creditors others	17	223,006,163	235,543,704
Total liabilities		<u>8,166,382,622</u>	<u>7,973,156,878</u>
<b>Equity</b>			
Common shares	3,19	11,325,781	11,325,781
Additional paid-in capital	3,19	743,744,192	743,744,192
Reserves	27	94,356,234	91,282,549
Retained earnings		144,037,766	101,460,076
Reserve for valuation of investment securities		24,326,992	6,316,584
Complementary tax		(10,073,910)	(6,361,542)
Total equity		<u>1,007,717,055</u>	<u>947,767,640</u>
Total liabilities and equity		<u>9,174,099,677</u>	<u>8,920,924,518</u>

The notes in pages 9 to 94 are an integral part of these consolidated financial statements.

## Banistmo S.A. and Subsidiaries

### Consolidated statement of profit or loss for the year ended December 31, 2016

(In Balboas)

	Notes	2016	2015
<b>Continued operations</b>			
Interest and commission income			
Interest on:			
Loans		426,786,494	384,583,041
Deposits in banks		6,019,835	4,519,081
Securities		23,665,742	23,667,308
Total interest and commission income	22	<u>456,472,071</u>	<u>412,769,430</u>
Interest expense:			
Deposits		125,974,004	113,719,802
Financings received		29,426,290	21,076,708
Total interest expense	22	<u>155,400,294</u>	<u>134,796,510</u>
Net interest and commission income, before provisions		301,071,777	277,972,920
<b>Provision for impairment in financial assets</b>			
Loans	12	101,927,464	39,961,527
Investments	10	-	399,643
Net interest and commission income, after provisions		<u>199,144,313</u>	<u>237,611,750</u>
Income (expenses) for banking services and others:			
Fees and other commissions	5	92,898,800	80,638,113
Gain (loss) on securities and derivatives, net	6	5,590,083	(1,887,854)
Other provisions	7	(8,086,917)	(152,815)
Commission expenses	7,22	(37,345,206)	(36,472,468)
Other net income	5	4,772,931	4,677,219
Total income for banking services and others, net		<u>57,829,691</u>	<u>46,802,195</u>
General and administrative expenses:			
Salaries and other employee costs	7,22	81,352,030	78,138,842
Leases		14,993,834	14,290,407
Advertising and promotion		4,913,813	4,762,156
Fees and professional services		26,335,237	17,188,493
Depreciation and amortization	13,14	20,885,431	17,817,928
Other expenses	7	63,694,737	67,193,015
Total general and administrative expenses		<u>212,175,082</u>	<u>199,390,841</u>
Profit before income tax and discontinued operations		44,798,922	85,023,104
Income tax expense	8	<u>(1,035,423)</u>	<u>15,026,508</u>
Profit for the year from continuing operations		45,834,345	69,996,596
<b>Discontinued operations</b>			
Profit for the year from discontinued operations, net of income tax	25	-	24,728,429
Net profit of the year		<u>45,834,345</u>	<u>94,725,025</u>

The notes in pages 9 to 94 are an integral part of these consolidated financial statements.

## Banistmo S.A. and Subsidiaries

### Consolidated statement of comprehensive income for the year ended December 31, 2016

(In Balboas)

	Notes	2016	2015
Net profit of the year		<u>45,834,345</u>	<u>94,725,025</u>
<b>Other comprehensive income</b>			
Items that can or cannot be reclassified			
to the consolidated statement of profit or loss:			
Reclassification to profit or loss from disposition of subsidiaries sold		-	(2,109,762)
Cash flow hedging:			
Effective portion of changes in the fair value	11	793,501	3,430,634
Reserve for valuation of investment securities:			
Net changes in valuation of securities available for sale	10	19,507,956	(3,754,832)
Transfer to profit or loss of change in fair value of the hedge item - fair value hedge	6,10	926,078	(987,625)
Net profit on securities available for sale transferred to profit or loss	6,10	(3,217,127)	(2,262,916)
Items not reclassified to the consolidated statement of profit or loss			
Actuarial valuation of defined benefits		<u>(182,970)</u>	<u>137,247</u>
Total of other comprehensive income (loss), net		<u>17,827,438</u>	<u>(5,547,254)</u>
Total comprehensive income of the year		<u>63,661,783</u>	<u>89,177,771</u>

The notes in pages 9 to 94 are an integral part of these consolidated financial statements.

**Banistmo S.A. and Subsidiaries**
**Consolidated statement of changes in equity  
for the year ended December 31, 2016  
(In Balboas)**

	Common shares	Paid-in additional capital	Preferred shares	Capital reserve	Dynamic equity reserve	Regulatory reserve for foreclosed assets	Regulatory reserve of business insurance	Actuarial valuation of defined benefits	Reserve for valuation of investment securities	Cash flow hedges	Complementary tax	Retained earnings	Total equity
<b>Balance at December 31, 2014</b>	10,000,001	612,491,972	147,151,800	2,500,000	73,717,784	3,092,586	37,177,171	(738,259)	16,225,220	(4,224,135)	(4,603,291)	(15,007,642)	877,783,207
Comprehensive income:													
Net profit	-	-	-	-	-	-	-	-	-	-	-	94,725,025	94,725,025
Other comprehensive income													
Actuarial valuation of defined benefits	-	-	-	-	-	-	-	137,247	-	-	-	-	137,247
Cash flow hedging:													
Effective portion of changes in fair value	-	-	-	-	-	-	-	-	-	3,430,634	-	-	3,430,634
Reclassification to profit or loss for disposition of subsidiaries sold	-	-	-	-	-	-	-	-	(2,109,762)	-	-	-	(2,109,762)
Reserve for valuation of investment securities:													
Net changes in valuation of securities available for sale	-	-	-	-	-	-	-	-	(3,754,832)	-	-	-	(3,754,832)
Transfer to profit or loss for the change in fair value of the hedge item - fair value hedge	-	-	-	-	-	-	-	-	(987,625)	-	-	-	(987,625)
Net profit on securities available for sale transferred to profit or loss	-	-	-	-	-	-	-	-	(2,262,916)	-	-	-	(2,262,916)
Total of other comprehensive incomes	-	-	-	-	-	-	-	137,247	(9,115,135)	3,430,634	-	-	(5,547,254)
Total of comprehensive income	-	-	-	-	-	-	-	137,247	(9,115,135)	3,430,634	-	94,725,025	89,177,771
Other equity transactions:													
Regulatory reserve for foreclosed assets	-	-	-	-	-	265,869	-	-	-	-	-	(265,869)	-
Disposition of regulatory reserve of insurance business	-	-	-	-	-	-	(37,177,171)	-	-	-	-	37,177,171	-
Dynamic equity reserve	-	-	-	-	14,807,322	-	-	-	-	-	-	(14,807,322)	-
Total of other equity transactions	-	-	-	-	14,807,322	265,869	(37,177,171)	-	-	-	-	22,103,980	-
Contributions and distributions to shareholders:													
Dividends paid - preferred shares	-	-	-	-	-	-	-	-	-	-	-	(2,861,287)	(2,861,287)
Complementary tax	-	-	-	-	-	-	-	-	-	-	(1,758,251)	-	(1,758,251)
Redemption of preferred shares	-	-	(147,151,800)	-	-	-	-	-	-	-	-	-	(147,151,800)
Contribution of common shares	1,325,780	-	-	-	-	-	-	-	-	-	-	-	1,325,780
Contribution to paid in capital	-	131,252,220	-	-	-	-	-	-	-	-	-	-	131,252,220
Capital reserve - sale of subsidiary	-	-	-	(2,500,000)	-	-	-	-	-	-	-	2,500,000	-
Total contributions and distributions to shareholders	1,325,780	131,252,220	(147,151,800)	(2,500,000)	-	-	-	-	-	-	(1,758,251)	(361,287)	(19,193,338)
<b>Balance at December 31, 2015</b>	11,325,781	743,744,192	-	-	88,525,106	3,358,455	-	(601,012)	7,110,085	(793,501)	(6,361,542)	101,460,076	947,767,640
Comprehensive income:													
Net profit	-	-	-	-	-	-	-	-	-	-	-	45,834,345	45,834,345
Other comprehensive income													
Actuarial valuation of defined benefits	-	-	-	-	-	-	-	(182,970)	-	-	-	-	(182,970)
Cash flow hedging:													
Effective portion of changes in fair value	-	-	-	-	-	-	-	-	-	793,501	-	-	793,501
Reserve for valuation of investment securities:													
Net changes in valuation of securities available for sale	-	-	-	-	-	-	-	-	19,507,956	-	-	-	19,507,956
Transfer to profit or loss of change in fair value of the hedge item - fair value hedge	-	-	-	-	-	-	-	-	926,078	-	-	-	926,078
Net profit on securities available for sale transferred to profit or loss	-	-	-	-	-	-	-	-	(3,217,127)	-	-	-	(3,217,127)
Total other comprehensive income	-	-	-	-	-	-	-	(182,970)	17,216,907	793,501	-	-	17,827,438
Total comprehensive income	-	-	-	-	-	-	-	(182,970)	17,216,907	793,501	-	45,834,345	63,661,783
Other equity transactions:													
Regulatory reserve for foreclosed assets	-	-	-	-	-	(1,114,388)	-	-	-	-	-	1,114,388	-
Dynamic equity reserve	-	-	-	-	4,371,043	-	-	-	-	-	-	(4,371,043)	-
Total of other equity transactions	-	-	-	-	4,371,043	(1,114,388)	-	-	-	-	-	(3,256,655)	-
Contributions and distributions to shareholders:													
Complementary tax	-	-	-	-	-	-	-	-	-	-	(3,712,368)	-	(3,712,368)
Total contributions and distributions to shareholders	-	-	-	-	-	-	-	-	-	-	(3,712,368)	-	(3,712,368)
<b>Balance at December 31, 2016</b>	11,325,781	743,744,192	-	-	92,896,149	2,244,067	-	(783,982)	24,326,992	-	(10,073,910)	144,037,766	1,007,717,055

The notes in pages 9 to 94 are an integral part of these consolidated financial statements.

## Banistmo S.A. and Subsidiaries

### Consolidated statement of cash flows for the year ended December 31, 2016 (In Balboas)

	Notes	2016	2015
<b>Operating activities</b>			
Net profit		45,834,345	94,725,025
Adjustments to reconcile net profit and net cash used in operating activities:			
Depreciation	13,25	14,383,569	12,721,541
Amortization of software, projects and others	14,25	5,439,970	5,186,026
Loss from discards of fixed assets	13,14	1,061,892	-
Provision for loan losses	12	101,927,464	39,961,527
Provision for investments		-	399,643
Other provisions	7	8,086,917	152,815
(Gain) loss from financial instruments, net	6,25	(5,590,083)	1,048,290
Gain in sale of subsidiary, net from instrument		-	(24,728,429)
Gain in sale of fixed assets		(876,269)	(49,321)
Income tax	8,25	(1,035,423)	18,160,211
Interest income and commissions		(456,472,071)	(414,847,903)
Interest expense		155,400,294	134,796,510
Changes in operating assets and liabilities:			
Original time deposits over three months		79,660,521	(71,747,493)
Decrease (increase) in restricted time deposits		7,230,000	(10,730,000)
Increase in restricted demand deposits		(220,000)	-
Securities at fair value with changes in profit or loss		90,590,518	16,912,880
Loans		(506,324,429)	(592,881,340)
Deposits		122,908,114	495,378,128
Other assets		(575,502)	(46,785,053)
Other liabilities		(32,845,043)	26,881,304
<b>Cash generated from operations</b>			
Interest received		472,242,422	423,594,433
Interest paid		(159,086,216)	(128,704,267)
Taxes paid		(4,466,059)	(16,576,859)
Net cash used in operating activities		(62,725,069)	(37,132,332)
<b>Investing activities</b>			
Purchases of securities available for sale	10	(216,404,000)	(336,298,781)
Sales and redemptions of securities available for sale	10	308,792,751	227,008,840
Securities held to maturity		(15,000,000)	(92,000,000)
Acquisition of property and equipment	13	(12,774,158)	(45,354,739)
Sales of property and equipment		9,656,262	9,643,382
Cash flows from acquisition, net of acquired cash	26	(11,101,304)	-
Cash delivered in sale of subsidiary, net of cash received		-	71,833,812
Net cash provided by (used in) investing activities		63,169,551	(165,167,486)
<b>Financing activities</b>			
Borrowings received		241,178,795	331,018,612
Repayment of financings received		(152,452,454)	(262,813,471)
Contribution to additional paid-in capital	19	-	131,252,220
Issuance of common shares	19	-	1,325,780
Redemption of preferred shares	20	-	(147,151,800)
Dividends paid - preferred shares		-	(2,861,287)
Complementary tax		(3,712,368)	(1,758,251)
Net cash provided by financing activities		85,013,973	49,011,803
Increase (decrease) in cash and cash equivalents		85,458,455	(153,288,015)
Cash and cash equivalents at beginning of the year		813,481,353	966,769,368
Cash and cash equivalents at end of year	9	898,939,808	813,481,353

The notes in pages 9 to 94 are an integral part of these consolidated financial statements.

## **1. Organization**

Banistmo S.A. started operations on August 1, 2004, under the laws of the Republic of Panama. The Superintendency of Banks of the Republic of Panama granted a Banking General License that allows the Bank to perform banking activities in Panama and abroad, as well as any other activities authorized by this Superintendency.

Banistmo S.A. offers directly, and through its subsidiaries (collectively, the “Bank”) a wide variety of financial services mainly to companies and individuals. In addition to corporate and retail banking services, the Bank offers financial leasing, fiduciary management of assets, paying agencies, registration and transfer, brokerage services and securities trading. The majority of these activities are subject to supervision by the regulatory authorities.

The Bank is wholly-owned by Bancolombia, S. A., the ultimate parent company.

The banking operations in the Republic of Panama are subject to regulatory requirements of the Superintendency of Banks of Panama, pursuant Executive Decree No.52 of April 30, 2008, which adopts the single text of Decree Law No.9 of February 26, 1998, as amended by Decree Law No.2 of February 22, 2008. The Superintendency of Banks of Panama has the authority, among others, to monitor, regulate and inspect banking operations.

Stock exchange operations in Panama are regulated by the Superintendency of the Securities Market in accordance with the legislation established in Decree Law No.1 of July 8, 1999, amended by Law No. 67 of September 1, 2011, issued by the Superintendency of the Securities Market of Panama, indicating that they are required to comply with the rules of capital adequacy, solvency ratio, capital fund, liquidity index, concentration of credit risk and structure expenses. In addition, on September 18, 2013, the Superintendency of the Securities Market of Panama issued Agreement 8-2013, which modified certain provisions of Agreement 4-2011 of June 27, 2011 on capital adequacy and modalities.

The main office of Banistmo S.A. is located at Torre Banistmo Building, 50 Street, Panama, Republic of Panama. At December 31, 2016, the Bank and its subsidiaries had a total of 2,393 (2015: 2,305) employees.

## **2. Significant accounting policies**

### **2.1. Basis of preparation of the financial statements**

#### Compliance Declaration

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

#### Use of estimates and critical assumptions

In the preparation of the consolidated financial statements Management has made certain accounting estimates and critical assumptions, and has exercised its judgment in the process of application of the accounting policies of the Bank, which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Because of this, the estimates and assumptions are constantly reviewed, recognizing said revision in the period in which it is carried out if the same affects said period; or in the review period and future periods, if it affects both the current and future periods.

### Basis of presentation

The consolidated financial statements are prepared using the historical cost method, excluding hedge and financial instruments available for sale presented at fair value with changes in comprehensive income; financial instruments at fair value and derivatives recognized at fair value with changes in profit or loss, securities held to maturity are presented at fair value and subsequently at historical cost, and assets and liabilities are presented as available for sale recognized between the lesser of either its book value or its fair value less cost of sale.

Those financial assets that have been designated as fair value hedge are adjusted by the changes in fair value attributed to the risk is being covered.

### Functional currency and of presentation

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

## **2.2. Presentation of financial statements**

Banistmo S.A. and Subsidiaries, presents the consolidated statement of financial position in the liquidity order. The net amount of financial assets and liabilities are offset in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle the net amount or to realize the asset and cancel the liability simultaneously.

The consolidated statement of profit or loss is presented based on the nature of the expenses. Income and expenses are not offset, unless such compensation is permitted or required by any accounting standard or interpretation, and is described in the policies of Banistmo S.A. and Subsidiaries.

The consolidated statement of comprehensive income presents the amounts of other comprehensive income classified by nature and grouped in those that will not be reclassified subsequently to profit or loss of the period and those that will be reclassified when certain conditions are met.

The consolidated statement of cash flows has been prepared using the indirect method, which is based on the net profit or loss for the year and this amount is eliminated by the effects of non-monetary transactions and items, as well as the gains and losses attributable to investment and financing activities.

## **2.3. Principles of consolidation**

### **2.3.1. Subsidiary**

The consolidated financial statements include the financial statements of Banistmo S.A. and its subsidiaries for the periods ended on December 31, 2016 and December 31, 2015.

In accordance with IFRS 10, a subsidiary is an entity controlled by one of the companies that make up the Bank, provided that the latter includes the following elements:

- Power over the investee, which gives it the present capacity to direct its relevant activities that significantly affect its performance.
- Exposure or right to variable returns arising from their participation in the investee.
- Ability to use its power over the investee to influence the investor's yield amounts.

The Bank reassesses whether or not it controls an investee if the facts and circumstances indicate that there are changes to one or more of the three control elements mentioned above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances when assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

The size of the percentage of the Bank's voting rights relative to the size and dispersion of the percentages of other voting holders;

- Potential voting rights held by the Bank, other shareholders or other parties;
- Rights from contractual agreements; and
- Any additional fact or circumstance indicating that the Bank has, or does not have, the current ability to direct relevant activities at the time decisions are needed, including voting patterns at previous shareholders' meetings.

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when it is exposed to, or has the rights to, variable returns from participation in the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date control is transferred to the Bank, and are deconsolidated from the date control ceases.

The Bank uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the previous owners of the acquiree and the equity investments issued by the Bank. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. Identifiable assets acquired and the contingent liabilities and liabilities assumed in a business combination are initially measured at their fair values at the acquisition date.

Costs related to the acquisition are recognized as expenses when incurred.

If the business combination is carried out in stages, at the acquisition date the book value of the previous stake of the acquiree is remeasured to fair value; any gain or loss resulting from such remeasurements is recognized in profit or loss for the period.

Any contingent consideration to be transferred by the Bank is recognized at its fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration that is considered an asset or liability will be recognized in accordance with IAS 39, either in profit or loss or as a change in comprehensive income. Contingent consideration that has been classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Intercompany transactions, balances and unrealized gains on intercompany transactions are eliminated. Unrealized losses are also eliminated. When necessary, the amounts reported by the subsidiaries have been adjusted to standardize them with the Bank's accounting policies.

Below is a brief description of the most important subsidiaries of Banistmo S.A. domiciled in Panama:

- *Financomer, S.A.* is primarily engaged in granting loans or finance facilities to individuals and corporate businesses. The Bank owns 100% of the issued and outstanding shares of the subsidiary. Financial operations in the Republic of Panama are regulated and supervised by the Ministry of Commerce and Industries through the Directorate of Financial Companies, according to Decree Law No.42 of July 23, 2001.

According to the Minutes of the General Meeting of Shareholders of Financomer, S.A. of April 21, 2016, the merger agreement was approved by which the company merges and absorbs the companies Grupo Financomer, S.A. and Financiera Flash, S.A., surviving Financomer, S.A.

Through Public Deed 11,831 of September 14, 2016, the company Financomer, S.A. has absorbed the companies Financiera Flash, S.A. and Grupo Financomer, S.A. which were also part of the subsidiaries that are 100% owned by Banistmo S.A.

- *Banistmo Investment Corporation S.A.* has a fiduciary license granted by the Superintendency of Banks of Panama. The investment administrator license granted by the Superintendency of Securities Market was canceled through resolution No.83-14 of February 25, 2014. The subsidiary is mainly engaged in administering trusts, and offers escrow agent services. The Bank owns 100% of the issued and outstanding shares of Banistmo Investment Corporation S. A.
- *Leasing Banistmo S.A.* is mainly engaged in financial leasing activities. The Bank owns 100% of the issued and outstanding shares of Leasing Banistmo S.A. The financial leasing operations in Panama are regulated by the Directorate of Financial Companies of the Ministry of Commerce and Industries pursuant to the provisions of Law No.7 of July 10, 1990.
- *Valores Banistmo S.A.*, (formerly Valores Bancolombia Panamá, S.A.) was incorporated in the Republic of Panama on April 6, 2005 and began operations on November 21, 2005. Its main source of business is to carry out financial intermediation and other related services, mainly for international clients.

According to Minutes of the Board of Directors of January 21, 2016 of Securities Banistmo S.A., a share purchase agreement was approved to be signed with Valores Bancolombia, S.A.

Through Resolution No.403-16 of June 14, 2016, the Superintendency of the Securities Market of Panama authorized the share control change of 100% of the common issued and outstanding shares and entitled to vote of Valores Bancolombia Panamá, S.A., a Panamanian company, by Valores Bancolombia, S.A. the seller and subsidiary of Bancolombia, S.A., to Securities Banistmo S.A., the buyer.

As at July 6, 2016, Securities Banistmo S.A., owned 100% of the Company's shares; it is incorporated under the laws of the Republic of Panama dedicated to the purchase and sale of securities. CNV Resolution No. 031-01 of the Securities Market Superintendence was granted a license to operate as a Stock Exchange. Through Resolution No.639-16 of September 13, 2016, the Superintendency of the Securities Market of Panama, authorized the conclusion of the merger agreement between Securities Banistmo S.A. and Valores Bancolombia Panamá, S.A. By public deed No. 18691 of October 4, 2016, the Public Registry authorized the merger agreement and the change of the corporate name to Valores Banistmo S.A.

Hereinafter, Banistmo S.A. will be denominated as the “Bank.” All subsidiaries of the Bank will be denominated hereinafter as, the “Subsidiaries”.

Additionally, the Bank has the following representation offices:

- *Representation Office in Guatemala:* By resolution No.507-2009 of July 3, 2009, the representation office of Banistmo S.A. in the Republic of Guatemala was registered at the Superintendency of Banks in Guatemala. This office promotes business and grants funding in the Guatemalan territory.
- *Representation Office in Nicaragua:* By resolution No.SIBOIF-XVII-144-2009 of May 26, 2009, the representation office of Banistmo S.A. was registered at the Public Trading Registry of the Republic of Nicaragua. This office promotes business and grants funding in the Nicaraguan territory.

On December 10, 2014, it was requested to the Superintendency of Banks and Other Financial Institutions of Managua that the legal representation of the office be transferred to the lawyers in that jurisdiction, through a general power of attorney registered with the Public Trading Registry of Managua on December 11, 2014.

By resolution SBP-0191-2016 of October 17, 2016, the Interim Superintendency of Banks of Panama authorized the closing of the representation office that is maintained in the city of Managua, Republic of Nicaragua.

By Resolution SIB-OIF-XXIV-571-2016 of November 18, 2016, the Superintendent of Banks and Other Financial Institutions of Nicaragua authorized the closure of operations of the Representation Office.

- By resolution No. 0044 of January 14, 2015, issued by the Financial Superintendency of Colombia, promotional and advertising activities of the products and services were authorized to be carried out in the Colombian market and to the clients of Banistmo S.A. (an entity abroad) through its parent company, Bancolombia, S.A.

### **2.3.2. Investments in subsidiaries**

#### *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### Disposal of Subsidiaries

When the Bank ceases to have control of any retained interest in the entity, its fair value is re-measured at the date when control is lost, with the change in carrying value recognized in profit or loss. The fair value is the initial carrying value for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Bank had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

### Structured Entities

Structured entities (SEs) are entities created to accomplish a narrow and well-defined objective, such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. An SE is consolidated if, based on an evaluation on the substance of its relationship with the Bank and the risks and benefits of the SE, the Bank concludes that it controls the SE. The following circumstances may indicate a relationship in which, in essence, the Bank controls and therefore consolidates the SE:

- The activities of the SE are being conducted on behalf of the Bank according to its specific business needs thereby that the Bank obtains benefits from the SEs' operation.
- The Bank has the decision-making powers to obtain the majority of the benefits of the activities of the SE or, by setting up an "autopilot" mechanism; the Bank has delegated these decision-making powers.
- The Bank has rights to obtain the majority of the benefits of the SE and, therefore, may be exposed to risks associated with the activities of the SE.
- The Bank retains the majority of the ownership and residual risks associated to the assets of the SE in order to obtain benefits from its activities.

The assessment of whether the Bank has control over an SE is carried out at inception and normally no further reassessment is performed in the absence of changes in the structure or conditions of the SE, or additional transactions between the Bank and the SE. Day-to-day changes in market conditions do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Bank and the SE, in such instances the Bank determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the Bank's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those originally established, change the relationship between the Bank and a SE, the Bank performs a reassessment of control over the SE.

## **2.4. Use of estimates and judgments**

The Bank's Administration evaluates the selection, disclosure and application of critical accounting policies in the estimates of greater uncertainty. Information related to assumptions and estimates that affect reported amounts of assets and liabilities within the following fiscal year and critical judgments in the selection and application of accounting policies are detailed as follows:

### Losses from impairment loans

At each reporting date, the Bank assesses whether there is any objective evidence of impairment of a loan or loan portfolio, leasing operations or factoring receivables (hereinafter referred to as "loans"). The amount of loan losses determined during the period is recognized as a provision expense in the results of operations and a reserve account for loan losses is increased. The reserve is presented deducted from loans receivable in the consolidated statement of financial position. When a loan is determined to be uncollectible, the unrecoverable amount is decreased from said reserve account.

For a financial asset, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Defaults or delinquencies by the borrower;
- Restructuring of a loan or advance payment by the Bank in conditions that it would not have otherwise considered;
- It is probable that the borrower will enter bankruptcy;
- The disappearance of an active market for a financial asset;
- Or other observable data related to a group of financial assets such as adverse changes in the payments status of the borrowers or issuers included in the Bank or the economic conditions that correlate with defaults on the Bank's assets.

The Bank considers evidence of impairment of the loan portfolio both at the level of a specific and collective asset. Loans in the loan portfolio that are not individually significant are collectively assessed for impairment by grouping them by similar risk characteristics.

### Individually assessed loans

Impairment losses on individually assessed loans are determined on the basis of a case-by-case assessment of exposures. If it is determined that there is no objective evidence of impairment for an individually significant loan, it is included in a group of loans with similar characteristics and is collectively assessed for impairment. The impairment loss is calculated by comparing the present value of the expected future cash flows and the realization of the collateral (if any) discounted at the effective rate of the loan against its current carrying value and the amount of any loss is recognized as a provision for losses in the consolidated statement of profit or loss. The carrying value of impaired loans is reduced by the use of the reserve account for loan losses.

### Collectively assessed loans

For the collective evaluation of impairment, the Bank applies the methodology to those assets that may be considered significant within the current portfolio or those with homogenous characteristics in the current or past portfolio. Statistical models are used that consider the probability of default, historical losses, recoveries, delinquency flows in a given time window and socioeconomic factors on current economic conditions of the country. Depending on the type of asset, different methodologies are applied: the net flow rates or the historical loss rates.

### Fair value of financial assets and liabilities

The fair values of the financial instruments that are not quoted in the active markets are determined using valuation techniques with reference to observable data. When the valuation techniques (for example, models), are used to determine the fair value, they are validated and approved by the respective authority. All the models are evaluated and adjusted before being used, and the models are calibrated to assure that the results reflect the present information and comparative prices of the market. (see Note 24.4.).

### Valuation of goodwill

In order to recognize goodwill impairment recorded in business combinations, the Bank conducts tests at least at the end of each period, which include significant estimates and judgments, taking into account the identification of cash generating units and the allocation of funds based on the expectations of future benefits of the Bank that originate as of the acquisition.

The valuation models used to determine the fair value of the acquired companies are sensitive to changes in assumptions and adverse changes in any of the factors mentioned may lead the Bank to recognize a charge to goodwill impairment. Management believes that the assumptions and estimates used are reasonable and sustainable in the existing market environment and in accordance with the risk profile of the assets. (see Note 14.1).

### Provisions and contingent liabilities

Contingent liabilities of the Bank include judicial, regulatory and arbitration proceedings and of taxes and other claims arising from normal activities. These contingencies are evaluated taking into account the best estimates made by Management and the necessary provisions for legal claims and other claims have been established, validating the probability of occurrence, if it is probable or remote.

Contingencies are partially provisioned and recorded when all available information indicates that their occurrence is feasible; in the future, the Bank is required to make disbursements for events that occurred before the balance sheet date and the amounts can be reasonably estimated. To make an adequate assessment of the likelihood and estimation of the amounts involved, the Bank takes into account the opinions of internal and external experts.

Throughout the existence of a contingency, the Bank may obtain additional information that may affect the evaluations related to the probability of occurrence or to estimates of the amounts involved. Changes in these assessments may lead to changes in provisions.

The Bank considers the estimates used to determine provisions for contingent liabilities such as critical estimates because the probability of their occurrence and amounts that the Bank may require to pay them are based on the criteria of the Bank and its advisors, which do not necessarily coincide with the future results of the proceedings. (see Note 21).

## **2.5. Accounting pronouncements issued recently and applicable in future periods**

### New standards and amendments adopted by the Bank

There are no standards and amendments adopted for the first time for the year beginning on January 1, 2016 that had a material impact on the consolidated financial statements of the Bank.

New standards and amendments not yet adopted by the Bank

New standards, interpretations and amendments to accounting standards have been published but are not mandatory for the year ended December 31, 2016, and have not been early adopted by the Bank. The assessment of the impact of these new standards is presented below:

- **IFRS 9 Financial Instruments:** IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- IFRS 9 requires that all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Under IAS 39, the total amount of the change in the fair value of the financial liability designated at fair value through profit or loss was recognized in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date for the application of IFRS 9 is for annual periods beginning on or as of January 1, 2018. However, this Standard can be adopted earlier.

- **IFRS 15 Revenue from Contracts with Customers:** In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 Effective for annual periods beginning on or after 1 January 2018, with earlier adoption permitted.

- **IFRS 16 Leases:** On January 13, 2016 the IFRS 16 Leases was issued, which replaces the current IAS 17 Leases. IFRS 16 eliminates classification of leases either as operating leases or finance leases for the lessee. Instead, all leases are recognized similarly to finance leases under IAS 17. Leases are measured at the present value of future lease payments and are presented as either leased assets (assets right of use) or along with property, furniture and equipment. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that also adopt IFRS 15 - Revenue from Contracts with Customers.

- Amendment to IAS 7: Statement of Cash Flows - Disclosure Initiative: The amendment requires entities to present a breakdown of changes in liabilities arising from financing activities, in order to improve the information provided to users of the financial information. The effective date for this amendment is January 1, 2017 with prospective application, although early adoption is permitted.
- Amendment to IAS 12: Income Taxes - Recognition of deferred tax assets for unrealized losses: The amendment provides clarity regarding the recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value, for which their tax base is the cost; the estimation of future taxable profits, in which it may be assumed that an asset will be recovered for a value that exceeds its carrying value; and the exclusion of the tax base resulting from the reversal of the deductible temporary differences to analyze the recoverability of the same and compare them with the future economic benefits. The retroactive application date will be as of January 1, 2017, although early adoption is allowed.

Due to the nature of the Bank's financial operations, the adoption of these standards will have a significant impact on the consolidated financial statements, an aspect that is being evaluated by Administration.

## **2.6. Significant accounting policies**

### **2.6.1. Transactions in foreign currency**

Assets and liabilities held in foreign currency are translated at the exchange rate prevailing at the date of the consolidated statement of financial position, except for those transactions with contractually agreed fixed exchange rates. Transactions in foreign currency are recorded at the exchange rates prevailing on the dates of the transactions. Foreign currency translated gains or losses are reflected in the net profit (loss) accounts in securities and derivatives in the consolidated statement of profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Foreign currency differences arising during the retranslation are recognized in profit or loss, except in the case of differences arising in the conversion of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in an operation abroad, or qualified hedges of cash flows, which are recognized directly in the consolidated statement of profit or loss.

### **2.6.2. Cash and cash equivalents**

In the consolidated statement of cash flows, the Bank considers as cash and cash equivalents, cash in hand, deposits held at call with unrestricted financial institutions, and other short-term highly liquid investments with original maturities of three months or less.

### **2.6.3. Pledged assets**

Pledged assets are cash assets that the Bank pledges as security to a third party in transactions with future derivatives. The increase of this value is made at the moment when a call is made to the margin or is required to increase the trading quota; otherwise, it occurs when it is intended to reduce said quota. This item is recorded for the amount disbursed in favor of the counterparty.

#### **2.6.4. Financial instruments**

A financial instrument is a contract that gives rise to a financial asset in one entity and, simultaneously, to a financial liability or equity instrument in another entity.

##### Recognition of financial assets and liabilities

Financial assets and liabilities are recognized on the date they originated. In the initial stage, they are recorded in the consolidated statement of financial position at their fair value, plus or less the costs directly attributable to the transaction for those assets or liabilities that are subsequently measured at amortized cost, otherwise such transaction costs are carried to the consolidated statement of profit or loss for the period. The Bank uses the contracts' settlement date on a regular basis during the recording of transactions with financial assets.

##### Offsetting of financial instruments

Financial assets and liabilities are offset, presented in the consolidated statement of financial position for its net amount only when the dependent subsidiaries have both a legally enforceable right to set off the amounts recognized in these instruments, as well as the intention to settle the net amount, or to realize the asset and proceed to settle the liability simultaneously. Currently, the Bank has not offset financial instruments, neither assets nor liabilities.

##### Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to receive cash flows have expired, or when the Bank has transferred financial assets and substantially all risks and rewards of ownership of the asset to another entity. If the Bank does not transfer or retain substantially all risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the assets and liabilities related to the amounts that it would have to pay. If the Bank retains substantially all risks and rewards of ownership of financial assets transferred, the Bank continues to recognize the financial asset and also recognizes a liability secured by the amount received.

When a financial asset is derecognized, the difference between the carrying value of the asset (or the carrying value allocated to the portion of the transferred asset), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that has been recognized in other comprehensive income is recognized in the consolidated statement of profit or loss.

##### Measurement of amortized cost

Amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at the initial recognition, less the installments to the principal, plus or less the accumulated amortization using the effective interest method of any difference between the initial amount recognized and the amount at maturity, less any impairment losses.

### Fair value measurement

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price found in the active market. A market is regarded as active if asset or liability transactions take place with sufficient frequency and volume that provides pricing information on an ongoing basis.

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. A gain or loss on the initial recognition is booked only if there is a difference between the fair value and the transaction price evidenced by other observable transactions in active markets with the same instrument or by valuation techniques with observable market data.

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

The Bank establishes a fair value hierarchy that categorizes into three levels of input data valuation techniques used for fair value measurement.

The fair value of financial assets and liabilities that are traded in an active market is based on quoted prices. For the other financial instruments the Bank determines the fair value using other valuation techniques.

Other valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which there are observable future prices in the market and other valuation models. The assumptions and inputs used in valuation techniques include risk-free rate reference, credit spreads and other assumptions used to estimate discount rates.

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

### Investments in securities

Investments in securities are classified at the trading date and are initially measured at fair value, and subsequently accounted for based on the classifications held according to the characteristics of the instrument and the purpose for which the acquisition was determined. The classifications used by the Bank are detailed below:

- Securities at fair value through profit or loss: This category includes those securities acquired for the purpose of generating a short-term gain due to fluctuations in the price of the instrument. These amounts are stated at fair value and changes in fair value are recognized in the consolidated statement of profit or loss in the net profit (loss) account in securities and derivatives in the period in which they are generated.

- Securities available for sale: This category includes securities acquired with the intention of holding them for an undetermined period, which may be sold in response to needs for liquidity, changes in interest rates, currency exchange rates or prices of investments. These securities are measured at their fair value and the changes in value are recognized directly in the consolidated statement of comprehensive income using a valuation account until the securities are sold or redeemed or it has been determined that a security has been impaired; in these cases, the cumulative gains or losses previously recognized in other comprehensive income is recognized in the consolidated income statement. Gains or losses on foreign exchange originated by securities available for sale are recognized in the consolidated income statement under net loss on securities and derivatives account.

Gains or losses in foreign currency arising from available-for-sale securities are recognized in the consolidated statement of profit or loss in the net profit (loss) account in securities and derivatives.

When the fair value of investments in equity instruments cannot be measured reliably, such investments remain at cost.

Dividends on equity instruments available for sale are recognized in the statement of profit or loss when the entity's right to receive payment is established.

The fair value of an investment in securities is generally determined based on the market price quoted on the date of the consolidated statement of financial position. If a reliable quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

#### Impairment of investments available for sale

The Bank assesses at each consolidated statement of financial position date whether there is objective evidence that investment securities are impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss that has been directly recognized in equity, is removed from equity and recognized in the consolidated statement of profit or loss.

If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statement. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income.

- Securities held to maturity: This category includes investments with the intention and ability to hold to maturity. These investments consist primarily of debt instruments, which are presented on the basis of amortized cost using the effective interest method less any impairment, with recognized income on an effective rate basis.

If the Bank sells an amount that is significant (in relation to the total amount of securities held to maturity) of securities held to maturity, the entire category must be reclassified as available for sale.

#### Impairment of held-to-maturity investments

The Bank considers evidence of impairment in investment instruments held to maturity at both a specific and collective asset level. Investment instruments held at fair value are evaluated for specific impairment. Those that have not been specifically impaired are collectively assessed for any signs of impairment that have been incurred, but have not yet been identified. Investment instruments held to maturity that are not individually significant are assessed collectively for impairment by grouping them by similar risk characteristics. Impairment losses are recognized in profit or loss.

If the conditions of an investment held to maturity are changed due to financial difficulties of the borrower or issuer, it must be assessed whether the financial asset should be derecognized. If the cash flows of the renegotiated asset are significantly different, then the contractual rights to receive the cash flows coming from the original financial asset are considered as expired. In this case the original financial asset is derecognized and a new financial asset is recognized at fair value.

#### Derivatives

A financial derivative is an instrument whose value varies in response to changes in a variable such as an interest rate, exchange rate, price of a financial instrument, a credit rating or index. This instrument does not require an initial investment or is lower in relation to other financial instruments with a similar response to changes in market conditions and is usually settled at a future date.

The Bank subscribes a variety of Financial Instruments to manage its exposure to foreign exchange rate and interest rate risks, including currency hedging, interest rate swap and currency swap contracts. (see Note 11).

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently measured at fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedge instrument, in which case the timing of recognition in profit or loss will depend on the nature of the hedge relationship.

#### Hedge accounting

The Bank designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 11 sets out details of the fair values of the derivative instruments used for hedging purposes.

- *Fair value hedges*

Derivative instruments designated as fair value hedges are instruments that hedge the exposure to changes in the fair value of assets or liabilities recognized in the consolidated statement of financial position, or an identified portion of the value of those assets or liabilities attributable to the specific risk and that could affect the net result presented in the consolidated financial statements. The hedging instruments are expressed at fair value with respect to the risk that is being covered. The changes in the value of these instruments are recognized in the consolidated statement of profit or loss.

If the asset being hedged is classified as available for sale, the change in fair value of this investment is recognized in equity. From the date such asset has coverage through a derivative, the revaluation of the asset will be recognized in the consolidated statement of profit or loss, and the balance for the revaluation recorded in the allowance will remain until the asset is sold or reaches its maturity date.

If the asset or liability being hedged is carried at amortized cost, the book value should be adjusted to reflect the changes in fair value. The asset or liability should be carried as amortized cost as soon as the hedge relationship ends using the effective rate of return adjusted for the amortization computation.

If the hedged asset carried at amortized cost has suffered an impairment loss, the loss will be computed based on the difference between the book value, after adjustments in changes in fair value of such asset as the result from the risk hedged, and the present value of the estimated discounted cash flows based on the adjusted effective rate of return.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying value of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

- *Cash flow hedges*

Derivative instruments designated as cash flow hedge are instruments covering the exposure to cash flow variation associated with a previously recognized assets or liabilities or a transaction expected to be highly possible.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item. The amounts accumulated in equity are reclassified to the consolidated statement of profit or loss in the net profit (loss) account in securities and derivatives in the periods in which the hedging transactions will affect the results of operations. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any remaining accumulated gain or loss on equity is recognized in the consolidated statement of profit or loss in the net profit and loss account (loss) on securities and derivatives.

When the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized directly in equity, they will be reclassified to profit or loss in the same period or periods during which the assets acquired or liabilities assumed will affect profit or loss. The adjustment to the carrying value of a hedging instrument remains in equity until the disposal of the asset or liability. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

- *Derivatives without accounting hedging*

Derivatives that are not associated with a hedging strategy are classified as financial assets or financial liabilities at fair value. Changes in the valuation of these derivative instruments are recognized in the consolidated statement of profit or loss under net profit (loss) item on securities and derivatives account.

### **2.6.5. Loans**

Loans are non-derivative financial assets with fixed or determinable payments composed mainly by corporate, consumer, financial leases and mortgage credits. Loans are initially measured at fair value plus the transaction and originating acquisition costs directly attributed to issuance and any subsequently measured at amortized cost utilizing the effective interest rate method, except when the Bank chooses to register the loans and advances at fair value with changes in profit or loss.

This method calculates the amortized cost of an asset and allocates the interest income or cost during the relevant period. The effective interest rate equals exactly cash flows receivable estimated over the expected life of the financial instrument, or when appropriate, for a shorter period, at the net carrying value of the asset at the initial time.

To calculate the effective interest rate, the Bank estimates the cash flows considering all contractual terms of the financial instrument, without including future credit losses and considering transaction or grant costs, transaction costs and premiums granted less commissions and discounts received that are an integral part of the effective rate.

### **2.6.6. Restructured financial assets**

The restructuring of credits constitutes an alternative to carry out an adequate collection management. It must be understood as an exceptional resource to regularize the behavior of the loan portfolio, implemented through the entering into and/or execution of any legal business, whose purpose is to modify the originally agreed conditions in order to allow the debtor's adequate attention of their obligations with the real or possible deterioration of their ability to pay.

Restructuring is carried out through changes in contractual terms, fees and payment terms. In all cases, at the time of the restructuring, at least the guarantees of the initial obligation are kept and, if possible, the Bank's position is sought by obtaining new guarantees and/or guarantees that support the obligations.

In the restructuring implementation, movable or immovable property can be received in payment in order to partially or totally cancel obligations, likewise, discounts on interest or other concepts such as commissions and, if necessary, on capital can be granted to customers, either because the guarantees or sources of payment do not have coverage on the debt total or because the settlement formula that is reached with the client does not allow the total recovery of the debts. In each negotiation, the conditions of the customer are reviewed to determine if the business relationship is maintained in the future, and if so, to define the conditions to reestablish said business relationship after a certain time.

In the event that the change is not recognized as a cancellation, the costs and commissions will be adjusted and amortized over the remaining life of the modified asset.

**2.6.7. Credit portfolio write-offs**

Portfolio write-offs are made based on the determination of non-payment of the obligations and accounts receivable by a client or a third party; In general terms, this characteristic will be achieved when the following conditions are present in the delinquency of the loan portfolio:

<b>Modality</b>	<b>Late payment status</b>
Consumption	180 days
Commercial	360 days
Microcredit	With guarantee 720 days and no guarantee 180 days
Housing	720 days

Among the reasons that support the non-payment of the portfolio, the estimated time of recovery of the obligation is considered and the probable percentage of recovery given the existence or not of guarantees. When delinquency conditions are presented, it is initially assessed whether the guarantees that support the portfolio generate a reasonable expectation of recovery; if this is the case, the necessary process is carried out for the recovery of the guarantee prior to the write-off; in cases where the net realizable value of the guarantee indicates that there are no reasonable expectations of recovery, the credits are written off. In most mortgage loan cases, there is still a high probability of recovery after default.

**2.6.8. Leases**

The Bank as lessee

Assets leased under finance leases are recognized at the lower of the fair value of the leased asset and the present value of the minimum lease payments and are presented as property and equipment in the statement of consolidated financial position.

Assets leased under finance leases are depreciated over the useful life of the asset using the straight-line method.

However, if there is no reasonable certainty that the Bank will obtain ownership at the end of the lease term, the asset will depreciate over its estimated useful life or within the lease term, whichever is less. Lease payments are divided between interest and debt reduction. Financial charges are recognized in the consolidated statement of profit or loss.

Operating lease payments, including incentives received, are recognized as expenses in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

#### The Bank as Lessor

Assets delivered under the lease by the Bank are classified at the initial time of the contract as financial or operating leases.

A lease is classified as financial when all the risks and benefits inherent initially in the item of portfolio loans and leasing operations are substantially transferred for the same value as the net investment in the lease. Otherwise, it is classified as an operating lease and presented as property and equipment.

The initial direct costs incurred in the negotiation of an operating lease are added to the carrying value of the leased asset and are recognized as an expense over the lease term. Contingent lease installments are recognized as income in the period in which they are earned.

Among the risks transferred are the possibility of losses due to underutilization, technological obsolescence, diminished profitability or changes in the economic environment.

There are signs of risk transfer and benefits inherent in the asset property:

- The agreement indicates that the lessee has the option to purchase the asset at a price that is expected to be equal to or less than 10% of the fair value of the asset upon termination of the lease.
- The term of the lease covers most of the economic life of the asset even if the property is not transferred at the end of the operation. It is understood that the term of the lease covers most of the economic life of the asset, when the minimum lease term represents 75% or more of the economic life of the leased asset.
- At the inception of the lease, the present value of the minimum lease payments is at least 90% of the fair value of the asset under the transaction.
- Assets under the lease are of such a specific nature that only the lessee has the possibility to use them without making any major changes in them.

If at any time the lessor and the lessee agree to change the terms of the contract, and the agreed changes result in a different classification with respect to the previous conditions, then the modified agreement will be considered as a new lease with new stipulations that will result in the classification of a financial or operating lease, as appropriate.

### **2.6.9. Financial liabilities**

#### Deposits, issued debt and equity securities

Deposits, issued debt and equity securities are the result of the resources that the Bank receives and are initially measured at fair value net of transaction costs. Subsequently, they are measured at amortized cost using the effective interest rate method except for those liabilities that the Bank decides to register at fair value with changes in profit or loss and the effect of changes in the credit risk of the liability is required to be presented in other comprehensive income.

The Bank classifies equity instruments issued in financial liabilities or equity instruments in accordance with the substance of the instrument's contractual terms.

#### Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequently, financings are recorded at their amortized cost; any difference between the net balance of the financing and the redemption value is recognized in the consolidated statement of profit or loss during the term of the financing, using the effective interest rate method.

#### Financial guarantee contracts

In order to meet the needs of customers, the Bank issues letters of credit and bank guarantees. Financial guarantees are contracts that require the Bank to make specific payments on behalf of its clients, to reimburse the beneficiary of the guarantee if the customer fails to pay on the agreed date, according to the terms and conditions of the contract.

Financial guarantee contracts are initially recognized as a liability at fair value, adjusted for transaction costs directly attributable to the issuance of the guarantee. Generally, the fair value of a financial guarantee at the initial moment is equal to the value of the commission or fee charged. Subsequently, the liability is measured at the higher of the estimate of the expected credit loss from "Impairment of financial assets at amortized cost" and the amount initially recognized less accumulated amortization.

The income obtained from the guarantee instruments is recognized as income from commissions in statements of profit or loss and during the time established in the contract.

### **2.6.10. Properties, furniture, equipment and improvements, net of depreciation**

Property, furniture, equipment and improvements comprise land, buildings, furnishings and improvements used by branches and offices. All properties, furnishings, equipment and improvements are presented at historical cost less accumulated depreciation. Historical cost includes that which is directly attributable to the acquisition of the goods.

Subsequent costs are included in the carrying value of the asset or recognized as a separate asset, as applicable, only when it is probable that the Bank will obtain the future economic benefits associated with the asset and the cost of the asset can be measured reliably. Costs considered as repairs and maintenance are recognized in the consolidated statement of gains or losses as incurred.

Depreciation expenses are recognized in the consolidated statement of income using the straight-line method, considering the useful life of the assets, except for land, which is not depreciated. The estimated useful lives of the assets are summarized as follows:

Property	17- 40 years
Improvements	40 years
Furniture and equipment	3 - 7 years
Computer equipment	3 - 5 years
Vehicles	4 years

The estimated useful lives of the assets are reviewed and adjusted, if appropriate, on each date of the consolidated statement of financial position. Property, equipment, and improvements are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying value of an asset is immediately reduced to its recoverable value if the carrying value of the asset is greater than the estimated recoverable amount. The recoverable amount is the greater of the fair value of the asset less the cost of sale and its value in use. Improvements in leased premises are amortized over the shorter of the useful life of the improvement and the term of the contract.

Gains and losses on the sale of fixed assets are recorded in the consolidated statements of profit or loss under other operating income.

#### **2.6.11. Intangible assets**

An intangible asset is an identifiable asset, non-monetary and without physical appearance. Intangible assets acquired separately are initially measured at cost. The useful lives of intangible assets are determined as finite or indefinite.

##### Goodwill

Goodwill derives from the acquisition of subsidiaries and represents the surplus of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired.

If the total of the consideration transferred, non-controlling interest recognized and interest held previously measured at fair value is less than the fair value of the net assets of the acquired subsidiary, in the case of a negotiated purchase, the difference is recognized directly in the consolidated statement of profit or loss.

For impairment testing purposes, goodwill acquired in a business combination is assigned to each of the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each unit or group of units to which the surplus value is assigned represents the lowest level within the entity to which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are made annually or more frequently if events or changes in circumstances indicate a possible impairment. The carrying value of the cash-generating unit containing the goodwill is compared to the recoverable amount, which is the higher of the value in use and the fair value less disposal costs. Any impairment is immediately recognized as an expense and is not subsequently reversed.

### Research and development costs – software

Research costs are expensed as incurred. Disbursements directly related to the development in an individual project are recognized as intangible assets when the Bank can demonstrate:

- The technical feasibility of completing the intangible asset so that it is available for use or sale;
- Its intention to complete the asset and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

In the consolidated statement of financial position, asset development expenditure is stated at cost less accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development has been completed and the asset is available for use. It is amortized during the period of expected future economic benefit.

### **2.6.12. Prepaid expenses**

The value of the anticipated expenses incurred by the Bank is recorded in the development of its activity in order to receive future services, which are amortized during the period in which the services are received or the costs or expenses are incurred.

### **2.6.13. Assets and liabilities held for sale and discontinued operations**

#### Assets and liabilities held for sale

The disposal group of assets and liabilities, including foreclosed assets held for sale, expected to be recovered through a sale rather than through continuing use are classified as held for sale.

Immediately before classifying them as held for sale, assets or components of a group of assets for disposal are valued again according to the Bank's accounting policies.

Since this classification, they are recognized at the lower of carrying value and fair value less costs to sell. An impairment loss is recognized for initial or subsequent reductions determined by the corresponding group of assets and liabilities.

This condition is fulfilled if the asset or group of assets is available, in its current condition, for immediate sale or if the sale transaction is highly probable and is expected to materialize within the year following the classification date. The impairment losses on initial and subsequent classification of assets and liabilities as held for sale are recognized in the consolidated statement of profit or loss.

#### Discontinued operations

A discontinued operation is a component of the Bank that has been sold or disposed by other means, or has been classified as held for sale, and (i) represents a line of business or geographical area of operation that is significant and can be considered separately from the rest, (ii) is part of a single coordinated plan to sell or otherwise dispose of a line of business or geographical area of operation that is meaningful and can be considered separately from the rest, or (iii) is a subsidiary acquired exclusively with the intention to resell it.

Classification as a discontinued operation occurs at the disposal of the operation or when it meets the criteria for classification as held for sale, whichever occurs first. When an operation is classified as discontinued, the consolidated statement of profit or loss and the consolidated statement of comprehensive income are modified as if the operation would have been discontinued since the beginning of the comparative year. Income and expenses arising from a discontinued operation are presented separately from those arising from continued activities, in a single item after income tax.

A discontinued operation is initially measured at the lower of its carrying value and fair value less cost of sale, and an impairment loss is recognized for any initial or subsequent decrease in discontinued operations at fair value less cost of sale. A gain is recognized for any subsequent increases in fair value less cost of sale of an asset, but not in excess of the cumulative impairment loss that had been previously recognized.

#### **2.6.14. Impairment of non-financial assets**

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

#### **2.6.15. Employee benefits**

The Panamanian labor law requires employers to constitute an Severance Fund, on behalf of the employees, to guarantee the seniority premium and compensation payment that the employee may be entitled in the event that the employment relationship ends due to unfair dismissal or resignation.

The Fund is created based on the employee's seniority premium paid quarterly based on 1.92% of the wages paid in the Republic of Panama. The quarterly contributions must be deposited in a trust. Such contributions are recognized as an expense in the statement of profit or loss. The Severance Fund is held in a private trust and administered by an independent entity to the Bank and its subsidiaries.

#### **Pensions and other benefits**

Quarterly payments must be deposited in a trust. These contributions are recognized as an expense in the results of operations. The severance fund is held in a private trust and administered by an independent entity to the Bank and its subsidiaries. These contributions are considered as a defined benefit plan, where the present value of future payments is measured against the services provided by employees using the projected credit method.

#### **2.6.16. Provisions and contingent liabilities**

Provisions are recorded when the Bank has a present legal or implicit obligation as a result of a past event, where it is probable that it will have to dispose of resources that incorporate economic benefits to cancel the obligation, and a reliable estimate of the value of the obligation can be made.

The amounts recognized in the consolidated statement of financial position correspond mainly to provisions for litigations, which are likely probable to rule against the Bank.

Possible obligations arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not entirely under the control of the Bank, or present obligations arising from past events, but which are not likely, but possible, that an outflow of resources including economic benefits is required to settle the obligation, or if the amount of the obligation cannot be measured with sufficient reliability, are not recognized in the consolidated statement of financial position, but instead are disclosed as contingent liabilities. The Bank mainly discloses, as contingent liabilities, litigations in which it acts as defendant, whose estimate of default is possible.

Probable assets, arising from past events, whose existence is to be confirmed only by the occurrence or by the non-occurrence of one or more uncertain events in the future, which are not entirely under the control of the Bank, are not recognized in the consolidated statement of financial position; instead they are disclosed as contingent assets when their occurrence is probable. When the contingent fact is true, the asset and the associated income are recognized in the results of the period.

#### **2.6.17. Customer loyalty program**

The Bank maintains two loyalty programs according to the type of credit card to provide incentives to its customers, which allow the purchase of goods and services, based on the exchange of accumulation of points of awards called "miles" and "points", which are granted based on the purchases made with credit cards of the Bank and the fulfillment of certain conditions established in said program. The exchange of miles for awards is made by a third party.

#### **2.6.18. Ordinary income**

Income is recognized to the extent possible that economic benefits flow towards the entity and revenues can be measured reliably.

##### Interest income and expenses

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

The effective interest rate method is a method of calculating the amortized cost of a financial asset or liability and allocating the financial income or expense over the relevant period. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (e.g. prepaid options), but does not consider future credit losses.

The calculation includes all fees paid or received between parties of the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs are origination costs directly attributable to the acquisition, issuance or disposition of an asset or liability.

Under IAS 39 Financial Instruments: Recognition and Measurement, the accrued interest deferral on impaired loans is not required. Article 30 of Agreement No. 4-2013 of the Superintendency of Banks of Panama establishes the suspension of the interest recognition when the demand for the deferral of interest recognition when the Bank a) determines the deterioration in the client's financial condition, and/or b) the debtor has not made the originally agreed contractual payments over a number of days depending on the type of loan, and c) the Bank determines the uncertainty of recovering the totality of the overdraft in the absence of cancellation in a certain number of days.

Resolution SBP-GJD-0003-2013 indicates that the concept of non-accrual of interest is not applied under IFRS. IAS 39 AG93 states that "once the value of the financial asset or group of similar financial assets has been reduced as a result of an impairment loss, interest income will be recognized thereafter using the interest rate applied to the discount of future cash flows for the purpose of measuring the impairment loss.

Banks must recognize interest income after recognition of the impairment using the interest rate applied to the cash flow discount.

#### Commissions and similar

The Bank charges commissions for the services it provides to its customers. Commission income can be divided into the following two categories:

- ***Income from commissions obtained from services rendered during a certain period of time***

Generally, the commission and fees 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. The fees and commissions on medium and long-term transactions are deferred and amortized as income using the effective interest rate method over the life of the loan. Loans commissions not related to the effective interest rate are included as income on loan commissions in the consolidated statement of profit or loss.

- ***Income from provision of transaction services***

Fees derived from trading or participation in the negotiation of a transaction for a third party, such as the acquisition of shares or other securities or the purchase or sale of companies, are recognized at the end of the underlying transaction. Fees or components of fees that are linked to a particular performance are recognized after meeting the relevant criteria.

#### Dividend income

Dividends are recognized in the consolidated statement of profit or loss when the entity has the right to receive the established payments.

### Profit or loss of net operations

- **Net gain in trading assets and liabilities**

Net gain on trading assets and liabilities is comprised of gains less losses on these instruments, which include changes in fair value, interest, dividends and foreign currency exchange differences within the consolidated statement of profit or loss.

- **Net gain in other financial instruments at fair value**

Net income from other financial instruments at fair value that do not qualify as derivatives held for risk hedging management purposes and financial instruments to trade includes all realized and unrealized changes in fair value, interest, dividends and differences in Foreign currency exchange within the consolidated statement of profit or loss.

#### **2.6.19. Income tax**

The estimated income tax is the tax payable on taxable income for the year, using current tax rates at the date of the consolidated statement of financial position and any other income tax adjustment of previous years.

The deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from initial recognition of goodwill; the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or taxable profit or loss.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted at the date of the consolidated statement of financial position and expected to be applied when the related deferred tax asset is realized or deferred tax liability is settled.

Deferred tax assets are recognized only to the extent that it is plausible that a future taxable gain will be available so that the temporary differences can be applied.

The assets and deferred tax liabilities are offset when there is a legal right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities derived from the gain of the same tax authority of the same taxable entity or different taxable entities have an intention to liquidate the balances on a net basis.

#### **2.6.20. Operation segment**

A business segment is a component of the Bank. For the purpose of decision making, in relation to the resources allocated to the segment, its operating results are regularly reviewed by Management, for which financial information is readily available.

### **2.6.21. Share capital and reserves**

Certain financial instruments are classified as equity instruments in accordance with the contractual terms of such instruments. The preferred stocks, not redeemable at a specific date by the shareholder's choice and that does not lead to dividend obligations, are presented as capital stocks. These financial instruments are presented as a component of stockholders' equity.

The originating costs directly attributable to the issue of the equity instrument are shown as a deduction from the original cost of such instruments.

### **2.6.22. Dividend distribution**

The distribution of dividends to shareholders is recognized as a liability in the financial statements of the Bank in the period in which the dividends are approved by the Board of Directors.

### **2.6.23. Trust operations**

Trust assets or administered by the trustee are not considered part of the Bank, consequently, such assets and their corresponding income are not included in the consolidated financial statements. It is the obligation of the Bank to manage the trust resources according to the contracts and separately from their equity.

The Bank charges a fee for the trusteeship of the funds paid by the trustor based on the balance amount carried of the trust or the agreements between the parties. These fees are recognized in income according to the terms written on the trust agreements either monthly, quarterly or annually, on an accrual basis.

### **2.6.24. Uniformity in the presentation of the consolidated financial statements**

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

Some figures and disclosures in the consolidated financial statements for 2015 have been reclassified to uniform its presentation to 2016.

## **3. Financial instrument 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 activities are mainly related to the use of financial instruments including derivatives and, as such, the consolidated statement of financial position is comprised mainly of financial instruments.

The Board of Directors and Management of the Bank have the responsibility of establishing and monitoring the risk management policies of the financial instruments. For this purpose, they have established certain committees which are responsible for the management and periodic monitoring of risks to which the Bank is exposed; these committees are: Risk Management Committee, Credit Committee, Management Committee of Assets, Liabilities and Capital, and Audit Committee.

Additionally, the Bank and its subsidiaries are subject to the regulations of the Superintendency of Banks of Panama and the Superintendency of Securities Market, with regard to the integrated risk management and capital management.

The Audit Committee oversees how Management monitors compliance with the policies and risk management procedures and checks whether the risk management framework is appropriate for the Bank. This Committee is assisted by Internal Audit in its supervisory role, conducting periodic reviews of controls and risk management procedures, whose results are reported to the Audit Committee.

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

### **3.1. Credit risk**

Is the risk that the debtor, issuer or counterpart of a financial asset owned by the Bank does not fully and timely comply with any payment due to the Bank, in accordance with the terms and conditions agreed upon when the respective financial asset was acquired or originated by the Bank. To mitigate the credit risk, risk management policies establish the processes and controls to be followed for the approval of loans and granting of credit facilities.

The Committees assigned by the Board of Directors and Management of the Bank, watch periodically the financial condition of the respective debtors and issuers that involve a credit risk to the Bank.

The Bank has established certain procedures to manage the credit risk summarized as follows:

#### Establishment of credit policies:

Credit policies, both for Retail Banking and Small and Medium Enterprises (SMEs), as well as Business Banking and Government, are made in coordination with the business units and the risk units through the approval of credit policies by Risk Management Committee, which in turn reports to the Board of Directors.

#### Establishment of authorization limits:

Authorization limits are approved by the Board of Directors, according to the recommendation of the Risk Management Committee.

#### Limits of concentration and exposure:

Limits of concentration and exposure, such as limits for specific industries, and limits for economic groups, are established for those segments that are considered necessary by the Risk Management Committee, taking into consideration the level of capital of the Bank and the size of the credit portfolio and to comply with the current banking regulations in Panama.

#### Development and maintenance of risk assessment:

Risk assessments are individually made for customers of Business and Government segment and by portfolio and/or product for customers of Retail and SMEs segments.

#### Review of compliance with policies:

The review of compliance of policies is done through annual evaluations of the commercial clients and through monthly sampling of the portfolio in the case of consumer clients. These assessments and samplings are periodically reviewed by the Audit Committee.

Credit quality analysis:

The following table analyzes the credit quality of the financial assets and the reserves for impairment/loss:

	Loans receivable		Investments in securities		Contingencies of credit risk	
	2016	2015	2016	2015	2016	2015
<b>Maximum exposure</b>						
Net carrying value	7,143,749,112	6,754,327,046	-	-	-	-
<b>At amortized cost</b>						
Grade 1: Normal	6,628,338,030	6,506,965,104	-	-	-	-
Grade 2: Low – reasonable risk	413,616,878	166,347,579	-	-	-	-
Grade 3: Subnormal	66,957,257	53,631,204	-	-	-	-
Grade 4: Doubtful	128,039,802	83,905,135	-	-	-	-
Grade 5: Unrecoverable	28,921,834	9,793,755	-	-	-	-
Gross amount	7,265,873,801	6,820,642,777	-	-	-	-
Less:						
Allowance for impairment	122,124,689	66,315,731	-	-	-	-
<b>Carrying value, net</b>	<b>7,143,749,112</b>	<b>6,754,327,046</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Renegotiated and restructured loans</b>						
Gross amount	71,447,383	62,890,895	-	-	-	-
Impaired amount	23,796,075	40,119,343	-	-	-	-
Allowance for impairment	(11,336,495)	(9,361,374)	-	-	-	-
Carrying value, net	60,110,888	53,529,521	-	-	-	-
<b>Available for sale</b>						
Investment grade	-	-	403,279,693	481,763,187	-	-
High risk	-	-	75,741,614	83,345,030	-	-
<b>Carrying value, net</b>	<b>-</b>	<b>-</b>	<b>479,021,307</b>	<b>565,108,217</b>	<b>-</b>	<b>-</b>
<b>With changes in profit or loss</b>						
Investment grade	-	-	108,344,924	168,796,023	-	-
Moderate risk	-	-	12,229,113	29,839,037	-	-
<b>Carrying value</b>	<b>-</b>	<b>-</b>	<b>120,574,037</b>	<b>198,635,060</b>	<b>-</b>	<b>-</b>
<b>Held to maturity</b>						
Moderate risk	-	-	35,035,000	35,035,000	-	-
High risk	-	-	72,461,176	57,450,115	-	-
<b>Carrying value</b>	<b>-</b>	<b>-</b>	<b>107,496,176</b>	<b>92,485,115</b>	<b>-</b>	<b>-</b>
<b>Neither in default nor impaired</b>						
Grade 1	6,613,892,016	6,389,115,175	-	-	-	-
Grade 2	-	93,488,680	-	-	-	-
Grade 3	-	17,135,447	-	-	-	-
Sub-total	6,613,892,016	6,499,739,302	-	-	-	-
<b>In default but not impaired</b>						
Grade 1	14,446,014	117,849,929	-	-	-	-
Grade 2	116,337,327	72,858,899	-	-	-	-
Grade 3	50,706,213	36,495,757	-	-	-	-
Sub-total	181,489,554	227,204,585	-	-	-	-

	Loans receivable		Investments in securities		Contingencies with credit risk	
	2016	2015	2016	2015	2016	2015
<b>Individually impaired</b>						
Grade 2	295,892,799	-	-	-	-	-
Grade 3	6,322,876	-	-	-	-	-
Grade 4	99,306,840	83,905,135	-	-	-	-
Grade 5	26,097,547	9,793,755	-	-	-	-
Sub-total	<u>427,620,062</u>	<u>93,698,890</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Allowance for impairment according to provision methodology</b>						
Individual	63,971,145	22,347,878	-	-	-	-
Collective	58,153,544	43,967,853	-	-	-	-
Total allowance for impairment	<u>122,124,689</u>	<u>66,315,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Portfolio overdue</b>						
91 to 180 days	73,693,773	121,045,792	-	-	-	-
181 days or more	80,528,883	45,066,425	-	-	-	-
	<u>154,222,656</u>	<u>166,112,217</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Commitments and contingencies</b>						
Normal	-	-	-	-	1,679,812,046	1,847,418,998
Special mention	-	-	-	-	33,632,070	-
<b>Carrying value</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,713,444,116</u>	<u>1,847,418,998</u>
<b>Contingent reserve of banking guarantees</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,093,482</u>	<u>-</u>

As described in the previous table, the factors of greater risk exposure and information about impaired assets and the assumptions used for these disclosures are the following:

- Impairment of loans and investments in securities - Management determines if there is objective evidence of impairment on the loans as established on the Use of estimates and judgments policy, based on the following criteria established by the Bank:
  - Failure to comply with interest or principal payments;
  - Cash flows with experimented difficulties by the borrower;
  - Failure to comply with the terms and conditions agreed;
  - Initiation of bankruptcy proceedings;
  - Impairment of the borrower's competitive position; and
  - Impairment in the collateral value.
- In default but not impaired - They are considered in default but not impaired, or not incurred losses, such as loans and investments that have a level of guarantees and / or sources of payment sufficient to cover the carrying value of the loan and investment. The amounts disclosed in the table above exclude investments measured at fair value through profit or loss.

- Renegotiated loans - Renegotiated loans are those that have been restructured due to impairment in the debtor's financial condition, and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring by the Bank.
- Allowances for impairment - The Bank has established allowances for impairment that represent an estimate of the incurred losses in the loan portfolio. The main components of this allowance are related to individual risks and the allowance for losses on loans estimated on a group basis considering a homogeneous group of assets in terms of incurred losses identified on loans subject to a specific impairment.
- Write-offs policy - The Bank determines the write-off of an individual loan or group of loans that are deemed uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance loans, write-off decisions generally are based on a past due loan status.
- Corporate and government banking in default - The balance of the loan will be considered in default when the debt service has not been received and/or within the interest thirty (30) days after the expiration of said payments.
- Overdue corporate and government banking - The credit balance of any credit facility whose failure to pay the contractually agreed amounts is more than 90 days old shall be considered as overdue. This term will be counted from the date established to comply with the payments. Operations with a single payment at maturity and overdrafts are considered past due when the aging of the non-payment exceeds 30 days from the date on which the payment obligation is established.

The table below shows the reconciliation of individually impaired credits:

	<b>2016</b>	<b>2015</b>
Balance at beginning of the year	93,698,890	101,724,109
New	388,453,727	45,610,502
Paid off	(20,895,322)	(11,047,438)
Written off	(14,982,614)	(17,495,382)
Installments	(2,200,072)	(1,796,188)
Classification change	(16,454,547)	(23,296,713)
	<u>427,620,062</u>	<u>93,698,890</u>

The following table shows the credit quality of time deposits and fixed income instruments classified as available for sale, at fair value through profit or loss, at amortized cost and securities held to maturity.

The analysis is based on the ratings assigned by the agencies:

	<b>2016</b>	<b>2015</b>
<b>Time deposits</b>		
Investment grade	297,810,608	290,669,620
Speculative grade	18,068,894	32,592,309
Without grade	61,021,519	54,426,196
	<u>376,901,021</u>	<u>377,688,125</u>

<b>Securities available for sale</b>	<b>2016</b>	<b>2015</b>
Sovereign bonds		
Investment grade	403,279,693	481,763,187
Without grade	<u>75,741,614</u>	<u>83,345,030</u>
Total	<u>479,021,307</u>	<u>565,108,217</u>
<b>Securities at fair value with changes in profit or loss:</b>		
Corporate bonds		
Investment grade	28,430,827	29,315,806
Moderate risk	<u>2,084,665</u>	<u>3,532,759</u>
Total	<u>30,515,492</u>	<u>32,848,565</u>
Sovereign bonds		
Investment grade	79,914,097	139,480,217
Moderate risk	<u>10,144,448</u>	<u>26,306,278</u>
Total	<u>90,058,545</u>	<u>165,786,495</u>
<b>Securities held to maturity:</b>		
Corporate bonds		
Moderate risk	35,035,000	35,035,000
Without grade	<u>72,461,176</u>	<u>57,450,115</u>
Total	<u>107,496,176</u>	<u>92,485,115</u>
Grand total	<u>1,083,992,541</u>	<u>1,233,916,517</u>

In order to manage financial risk exposures of the investment portfolio, the Bank uses international classifications, as detailed below:

<b>Rating grade</b>	<b>International rating</b>			
	<b>2016</b>		<b>2015</b>	
	<b>From</b>	<b>To</b>	<b>From</b>	<b>To</b>
Investment grade	AAA	BBB-	AAA	BBB-
Speculative grade	BB+	CCC	BB+	CCC
No grade	Not graded	Not graded	Not graded	Not graded

The value of the guarantees of those loans with outstanding and past due balances are presented below:

	<b>2016</b>	<b>2015</b>
Cash	1,352,591	1,368,017
Properties	209,893,323	200,937,412
Equipment	<u>18,248,753</u>	<u>14,661,903</u>
	<u>229,494,667</u>	<u>216,967,332</u>

Guarantees and their financial effect

The table below presents the main types of guarantees and their percentage ratio to the total of guaranteed loans:

	2016	2015	Type of guarantee
Loans receivable:	11%	12%	Cash
	84%	79%	Properties
	5%	8%	Equipment
	0%	1%	Others

Residential mortgage loans

The table below presents credit exposure from residential mortgage loans by ranges of loan-to-value (LTV) ratio. The value of the loan or "loan to value" (LTV) is a mathematical equation that measures the ratio between what is lent and the value of the property that will be the subject (and collateral) of the loan. The gross amounts exclude any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

The value of the collateral for residential mortgage loans is based on the collateral value at the disbursement date and is generally not updated, except if the credit is updated based on changes in collateral price index:

% LTV	2016	2015
Less than 50%	264,460,327	259,062,806
51–70%	551,081,130	533,719,626
71–90%	1,034,096,358	868,458,020
91–100%	287,306,300	195,770,591
More than 100%	3,408,412	10,298,224
	<u>2,140,352,527</u>	<u>1,867,309,267</u>

Corporate loans

The overall credit quality of a corporate client tends to be the most relevant indicator of the credit quality of a loan. However, the collateral provides additional security and the Bank usually asks companies to provide it. The Bank does not routinely update the valuation of collaterals taken for a loan to corporate customers. Valuation of the collateral is updated when the credit risk of a loan is deteriorated significantly and the loan is monitored with more emphasis. For doubtful recoverable loans, the Bank obtains collateral valuations because the current value of the collateral is an input to the impairment measurement. At December 31, 2016, the net accounting value of the impaired loans and corporate commitments not paid amounted to B/.360,076,272 (2015: B/.143,202,563) and the value of the collaterals for those loans and commitments amount to B/.249,669,778 (2015: B/.140,644,112).

Assets received as guarantees

The following table presents the non-financial assets that the Bank took possession of collaterals to guarantee the collection of credit:

	2016	2015
Properties	13,481,153	1,993,992
Furniture and equipment	1,088,320	956,024
	<u>14,569,473</u>	<u>2,950,016</u>

The Bank's policy is to perform or execute the sale of these assets to cover the outstanding balances. Usually, it is not the Bank's policy to use non-financial assets for its own operations.

### Credit risk concentration

The Bank monitors the credit risk concentration by sector and geographic location. An analysis concentration of credit risk from different financial instruments at the reporting date of the consolidated statement of financial position is as follows:

	Loans receivable		Investments in securities (excluding equity share)		Contingencies with credit risk	
	2016	2015	2016	2015	2016	2015
Carrying value	<u>7,143,749,112</u>	<u>6,754,327,046</u>	<u>707,091,520</u>	<u>856,228,392</u>	<u>1,713,444,116</u>	<u>1,847,418,998</u>
<b>Concentration per sector</b>						
Corporate	3,635,481,384	3,583,959,422	138,011,668	125,102,437	628,273,277	671,138,856
Consumer	3,562,692,658	3,156,357,463	-	-	1,067,201,453	1,090,453,430
Government	67,699,759	80,325,892	569,079,852	731,125,955	17,969,386	85,826,712
	<u>7,265,873,801</u>	<u>6,820,642,777</u>	<u>707,091,520</u>	<u>856,228,392</u>	<u>1,713,444,116</u>	<u>1,847,418,998</u>
Less:						
Reserve	<u>122,124,689</u>	<u>66,315,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Carrying value</b>	<u>7,143,749,112</u>	<u>6,754,327,046</u>	<u>707,091,520</u>	<u>856,228,392</u>	<u>1,713,444,116</u>	<u>1,847,418,998</u>
<b>Geographic concentration</b>						
Panama	6,815,170,693	6,350,029,014	487,684,741	484,028,023	1,494,293,783	1,613,545,570
Latin America and the Caribbean	450,703,108	464,920,870	52,134,277	91,581,454	197,257,149	202,561,020
United States of America and Canada	-	5,692,893	167,272,502	280,618,915	3,143,362	7,213,773
Europe	-	-	-	-	6,347,589	8,881,605
Others	-	-	-	-	12,402,233	15,217,030
	<u>7,265,873,801</u>	<u>6,820,642,777</u>	<u>707,091,520</u>	<u>856,228,392</u>	<u>1,713,444,116</u>	<u>1,847,418,998</u>
Less:						
Reserve	<u>122,124,689</u>	<u>66,315,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Carrying value</b>	<u>7,143,749,112</u>	<u>6,754,327,046</u>	<u>707,091,520</u>	<u>856,228,392</u>	<u>1,713,444,116</u>	<u>1,847,418,998</u>

The geographic concentrations of loans and contingencies with credit risk are based on the debtor's location. In relation to the geographic concentration for investments, this measure is based on the location of the issuer's title - security.

### **3.2. Liquidity or financial risk**

Liquidity risk is defined as the difficulty to timely liquidate assets on the corresponding dates or obtain funding under normal conditions to meet its obligation associated with its liabilities. Liquidity risk may be affected by different factors, such as: an unexpected withdrawal of funds by creditors or customers, the deterioration of the quality of the loan portfolio, the devaluation of securities, the reduction in value of securities, the excessive concentration of liabilities from one particular source, a mismatch between assets and liabilities, and a shortage of asset liquidity.

In line with government's best practices, the Bank has established a clear division between the implementation of the financial management strategy, responsibility of the area of asset and liability management, and its monitoring and control, responsibility of the area of market risks and liquidity.

Liquidity risk management policies establish a comprehensive control framework, approved by senior management and reviewed at least once a year, which includes an internal liquidity risk measurement methodology and the determination of a minimum level of liquid assets, indicators that allow monitoring internal and external variables, and a liquidity contingency plan.

#### 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 high liquidity instruments to cover accumulated negative gap calculated as the difference between the flows that mature of the assets and the flows of liabilities in a certain time band. These flows are constructed from contractual flows affected by indicators, that convert them in expected flows.

Measures to control liquidity risk also include the maintenance of an investment portfolio in order to have a liquidity reserve, and the definition of early warnings and liquidity limits (in addition to monitoring of regulatory requirements), which allow to proactively assess the level of Bank exposure.

The policies, methodologies and guidelines of liquidity risk management are defined through the different instances of senior management. These instances are made up of the Board of Directors, the Risk Management Committee and the Senior Management of the Bank, and are guided by the definition of risk appetite and therefore, the definition of the financial strategy to be followed.

Periodic validation is made of the policies, limits, processes, methodologies and tools for the evaluation of the exposure to liquidity risk, in order to establish their relevance and functionality, and make the necessary adjustments. The market and liquidity risk areas prepare periodic reports to monitor the evolution of liquidity risk exposure levels and established limits and alerts, and support the decision-making process.

Liquidity risk management seeks to support financial management and support the Bank's day-to-day liquidity management process, providing sufficient information to determine the degree of exposure to illiquidity events. To achieve this, measurements are obtained that allow senior management to make decisions to correct situations in which there are high exposures to liquidity risk.

#### Exposure to liquidity risk

The table below shows the indexes of net liquid assets on deposits received from clients and financings with financial institutions, under the regulatory liquidity guidelines required by the Superintendency of Banks of Panama, at the date of the consolidated financial statements:

	2016	2015
Average of the year	48.27%	45.48%
Maximum of the year	51.27%	48.79%
Minimum of the year	46.20%	41.10%

The following table analyzes the contractual maturities of the main financial assets and liabilities in maturity groupings based on the remaining period as of the date of the consolidated statement of financial position with respect to the contractual maturity date. Those items that do not have contractual maturity, such as cash and cash effects on assets, and demand deposits and savings deposits on liabilities, are presented in the first time band.

2016	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Without maturity	Total
<b>Assets</b>						
Cash and cash effects	203,946,735	-	-	-	-	203,946,735
Deposits in banks	741,495,987	-	-	-	-	741,495,987
Loans, net	1,765,230,291	967,834,204	968,494,257	3,442,190,360	-	7,143,749,112
Investments in securities	226,076,082	209,181,616	72,890,341	198,943,481	28,243,277	735,334,797
<b>Total assets</b>	<b>2,936,749,095</b>	<b>1,177,015,820</b>	<b>1,041,384,598</b>	<b>3,641,133,841</b>	<b>28,243,277</b>	<b>8,824,526,631</b>
<b>Liabilities</b>						
Demand deposits	1,338,427,040	-	-	-	-	1,338,427,040
Savings deposits	1,593,803,082	-	-	-	-	1,593,803,082
Time deposits	1,931,823,390	888,064,587	569,184,200	-	-	3,389,072,177
Interbank deposits	346,666,861	2,518,318	50,025,000	-	-	399,210,179
Borrowings	1,099,286,196	85,485,463	-	-	-	1,184,771,659
<b>Total liabilities</b>	<b>6,310,006,569</b>	<b>976,068,368</b>	<b>619,209,200</b>	<b>-</b>	<b>-</b>	<b>7,905,284,137</b>
Loan commitments	858,012,384	-	283,797,109	-	-	1,141,809,493
Letters of credit	74,744,615	-	-	-	-	74,744,615
Guarantees, bonds and others	342,315,699	135,815,570	15,221,362	3,537,377	-	496,890,008
	<b>1,275,072,698</b>	<b>135,815,570</b>	<b>299,018,471</b>	<b>3,537,377</b>	<b>-</b>	<b>1,713,444,116</b>
2015	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Without maturity	Total
<b>Assets</b>						
Cash and cash effects	224,237,933	-	-	-	-	224,237,933
Deposits in banks	722,650,272	-	-	-	-	722,650,272
Loans, net	1,706,924,758	982,691,815	963,698,964	3,101,011,509	-	6,754,327,046
Investments in securities	140,099,360	414,602,805	72,545,827	228,980,400	14,234,121	870,462,513
<b>Total assets</b>	<b>2,793,912,323</b>	<b>1,397,294,620</b>	<b>1,036,244,791</b>	<b>3,329,991,909</b>	<b>14,234,121</b>	<b>8,571,677,764</b>
<b>Liabilities</b>						
Demand deposits	1,460,286,295	-	-	-	-	1,460,286,295
Savings deposits	1,695,069,850	-	-	-	-	1,695,069,850
Time deposits	1,963,002,039	750,391,744	382,825,647	-	-	3,096,219,430
Interbank deposits	352,164,689	455,679	-	-	-	352,620,368
Borrowings	563,035,155	530,104,506	-	-	-	1,093,139,661
<b>Total liabilities</b>	<b>6,033,558,028</b>	<b>1,280,951,929</b>	<b>382,825,647</b>	<b>-</b>	<b>-</b>	<b>7,697,335,604</b>
Loan commitments	887,467,650	-	265,480,814	-	-	1,152,948,464
Letters of credit	46,221,706	-	-	-	-	46,221,706
Guarantees, bonds and others	471,908,883	18,065,645	154,048,362	4,225,938	-	648,248,828
	<b>1,405,598,239</b>	<b>18,065,645</b>	<b>419,529,176</b>	<b>4,225,938</b>	<b>-</b>	<b>1,847,418,998</b>

Items outside the consolidated statement of financial position, such as letters of credit, guarantees, Loan commitments, among others, have been fully included in this liquidity analysis. Based on its historical experience, Management does not expect all of these commitments to result in disbursements. For additional disclosures about commitments and contingencies. (see Note 21).

The periods in which cash flows related to derivative transactions are expected to occur as well as those expected to affect the consolidated statement of profit or loss are as follows:

2016	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
	Cash input flows	231,571,426	58,287,171	25,234,380	146,684,007
Cash output flows	(231,614,342)	(58,536,104)	(24,664,619)	(146,534,938)	(461,350,003)
<b>Total</b>	<b>(42,916)</b>	<b>(248,933)</b>	<b>569,761</b>	<b>149,069</b>	<b>426,981</b>

2015	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
	Cash input flows	467,183,020	70,408,541	27,582,006	111,690,558
Cash output flows	(470,634,244)	(71,523,053)	(27,409,438)	(111,516,967)	(681,083,702)
<b>Total</b>	<b>(3,451,224)</b>	<b>(1,114,512)</b>	<b>172,568</b>	<b>173,591</b>	<b>(4,219,577)</b>

#### Liquid assets

In order to ensure the proper operation of the Bank's activities and financial services, a total level of liquid assets is made up of: available, high quality securities and other securities classified according to their liquidity characteristics in the market.

The following table shows the Bank's liquid assets:

Liquid assets	2016	2015
<b>High quality assets</b>		
Available	438,191,602	449,274,046
High quality securities	106,408,033	136,076,010
<b>Other liquid assets</b>		
Other securities	410,502,254	517,646,585
<b>Total liquid assets</b>	<b>955,101,889</b>	<b>1,102,996,641</b>

Availability is the feature of high liquidity assets composed by cash and demand deposits; also the high quality bonds that are composed by government obligations with the highest rating within the international investment grade, while the other securities are composed of instruments with investment grade.

### **3.3. Market risk**

Market risk is understood as the possibility of incurring losses, reducing the financial margin and/or decreasing the economic value of equity as a result of changes in the price of financial instruments in which positions are held inside or outside the balance sheet, changes in the factors associated with interest rates or changes in the same rates or exchange rates. The objective of market risk management is to manage and control market risk exposures, within acceptable parameters, while optimizing the return on risk.

The assessment of market risk is done periodically using the measurements of VaR (Value at Risk) and PVBP (which is a sensitivity affected by interest rates, it is a measure used to describe how a change of one basis point in the rate of interest affects the market value of an instrument), in which the first methodology is used for the Treasury portfolio and the second one for the bank portfolio, to measure the interest rate risk.

In the Bank, market risks are identified, measured, monitored, controlled and communicated to make timely decisions for their appropriate mitigation and to obtain risk-return profiles in accordance with the entity's policies, maintaining expected losses at tolerable levels. The guidelines, policies and methodologies for market risk management are approved by the Board of Directors.

The table below presents a summary of the VaR calculation, which is calculated by historical simulation, within 10 days for the Bank's investment portfolio at the date of the consolidated statement of financial position, which compiles both the interest rate risk as well as the exchange rate risk:

	<b>2016</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
Total VaR	6,028,635	6,192,611	10,965,034	3,270,551
	<b>2015</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
Total VaR	2,904,071	3,618,084	4,127,859	2,904,071

The Bank also carries out measurements of extreme scenarios or stress tests that allow estimating potential losses that do not occur very frequently, but which are still possible by replicating crises occurred in the past or, on the contrary, simulating hypothetical events.

The composition and analysis of each type of market risk are detailed below:

Exchange risk rate

Is the risk that the value of a financial instrument fluctuates as a consequence of the variations of the foreign currency exchange rates and other financial variables as well as the reaction of the market participants to political and economic events.

In order to control this risk, the Bank seeks to control the exchange rate gap by managing the position of assets in foreign currency to be equal to the position of liabilities; it also contracts foreign exchange derivatives, which are traded by the Treasury, where said area is responsible for managing the net foreign currency position for the different currencies approved by the Bank.

The Bank maintains operations of financial instruments in the consolidated statement of financial position, agreed in foreign currencies, which are presented in their equivalent value in Balboas as follows:

2016	Costa Rican Colon	Mexican Peso	Euros	Other currencies	Total
	Cash and deposits in financial institutions	9,326,314	9,717	33,555,102	7,397,611
Securities at fair value through profit or loss	2,722,782	57,341,712	-	-	60,064,494
Securities available for sale	-	-	2,325,735	-	2,325,735
Accrued interest receivable	511,889	-	-	-	511,889
Customers' liabilities under acceptances	-	-	224,518	868,030	1,092,548
<b>Total assets</b>	<b>12,560,985</b>	<b>57,351,429</b>	<b>36,105,355</b>	<b>8,265,641</b>	<b>114,283,410</b>
Deposits received	6,418,680	-	36,063,490	6,652,892	49,135,062
Accrued interests payable	14,669	-	-	-	14,669
Outstanding acceptances	-	-	224,518	868,030	1,092,548
<b>Total liabilities</b>	<b>6,433,349</b>	<b>-</b>	<b>36,288,008</b>	<b>7,520,922</b>	<b>50,242,279</b>
<b>Net positions in the consolidated statement of financial position</b>	<b>6,127,636</b>	<b>57,351,429</b>	<b>(182,653)</b>	<b>744,719</b>	<b>64,041,131</b>

2015	Costa Rican Colon	Mexican Peso	Euros	Other currencies	Total
	Cash and deposits in financial institutions	29,771,617	999,284	35,922,717	7,073,603
Securities at fair value with changes in profit or loss	5,381,476	112,115,441	-	-	117,496,917
Securities available for sale	-	-	1,959,718	-	1,959,718
Accrued interest receivable	716,801	-	-	617	717,418
Customers' liabilities under acceptances	-	-	1,489,941	5,461,858	6,951,799
<b>Total assets</b>	<b>35,869,894</b>	<b>113,114,725</b>	<b>39,372,376</b>	<b>12,536,078</b>	<b>200,893,073</b>
Deposits received	1,949,850	-	35,885,520	6,412,517	44,247,887
Accrued interests payable	7,745	-	1,165	2,301	11,211
Outstanding acceptances	-	-	1,489,941	5,461,858	6,951,799
<b>Total liabilities</b>	<b>1,957,595</b>	<b>-</b>	<b>37,376,626</b>	<b>11,876,676</b>	<b>51,210,897</b>
<b>Net positions in the consolidated statement of financial position</b>	<b>33,912,299</b>	<b>113,114,725</b>	<b>1,995,750</b>	<b>659,402</b>	<b>149,682,176</b>

At December 31, 2016, the column of "Other Currencies" includes: Yens, Swiss Francs, British Pounds, Canadian Dollars, Danish Crowns, Norwegian Crowns, Guatemalan Quetzals, Australian Dollars, Hong Kong Dollars, Singapore Dollars, Dominican Peso, Nicaraguan Cordoba, Offshore Yuan (China), Yuan Renminbi (China) and Colombian Pesos.

#### Interest rate risk

Interest rate risk is understood as the possibility of incurring losses due to the decrease in the economic value of equity or the reduction in the net interest margin, as a result of changes in interest rates. The impact of these changes could be reflected in the financial margin, and consequently, in equity due to the risks inherent in active and passive transactions.

Managing interest rate risk consists of monitoring and controlling these potential impacts, seeking to maximize the risk/profitability ratio of the banking book. The approval, follow-up and control of the methodologies, policies, guidelines and strategies for managing interest rate risks is carried out by the Risk Management Committee and the Assets, Liabilities and Capital Management Committee.

The Bank uses methodologies for the control and analysis of interest rate risk, in order to mitigate the impacts that could affect the results facing adverse movements in interest rates in the market. To mitigate this risk, the Bank uses models such as the interest rate gap and sensitivities to hypothetical changes in market rates. The analysis seeks to evaluate the exposure to which the Bank is subject, in order to make a timely follow-up for the management of these risks.

The table below summarizes the interest rate gap, based on interest repayment terms of financial assets and liabilities, located by time bands.

2016	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
<b>Assets</b>					
Time deposits in banks	376,901,021	-	-	-	376,901,021
Investments in securities	226,076,082	209,181,616	72,890,341	198,943,481	707,091,520
Loans, net	3,652,065,880	774,282,009	471,091,420	2,246,309,803	7,143,749,112
<b>Total assets</b>	<b>4,255,042,983</b>	<b>983,463,625</b>	<b>543,981,761</b>	<b>2,445,253,284</b>	<b>8,227,741,653</b>
<b>Liabilities</b>					
Demand deposits	633,864,156	704,562,884	-	-	1,338,427,040
Savings deposits	1,593,803,082	-	-	-	1,593,803,082
Time deposits	1,931,823,390	888,064,587	569,184,200	-	3,389,072,177
Interbank deposits	346,666,861	2,518,318	50,025,000	-	399,210,179
Borrowings	1,184,771,659	-	-	-	1,184,771,659
<b>Total liabilities</b>	<b>5,690,929,148</b>	<b>1,595,145,789</b>	<b>619,209,200</b>	<b>-</b>	<b>7,905,284,137</b>
<b>Total interest rate sensitivity</b>	<b>(1,435,886,165)</b>	<b>(611,682,164)</b>	<b>(75,227,439)</b>	<b>2,445,253,284</b>	<b>322,457,516</b>
2015	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Total
<b>Assets</b>					
Time deposits in banks	377,688,125	-	-	-	377,688,125
Investments in securities	190,480,641	414,602,805	76,861,088	174,283,858	856,228,392
Loans, net	3,442,950,216	772,244,550	486,359,306	2,052,772,974	6,754,327,046
<b>Total assets</b>	<b>4,011,118,982</b>	<b>1,186,847,355</b>	<b>563,220,394</b>	<b>2,227,056,832</b>	<b>7,988,243,563</b>
<b>Liabilities</b>					
Demand deposits	771,254,961	689,031,334	-	-	1,460,286,295
Savings deposits	1,695,069,850	-	-	-	1,695,069,850
Time deposits	1,963,055,350	750,338,433	382,825,647	-	3,096,219,430
Interbank deposits	352,164,689	455,679	-	-	352,620,368
Borrowings	1,093,139,661	-	-	-	1,093,139,661
<b>Total liabilities</b>	<b>5,874,684,511</b>	<b>1,439,825,446</b>	<b>382,825,647</b>	<b>-</b>	<b>7,697,335,604</b>
<b>Total interest rate sensitivity</b>	<b>(93,055,430)</b>	<b>(298,951,906)</b>	<b>37,987,620</b>	<b>644,927,675</b>	<b>290,907,959</b>

The Bank conducts a sensitivity analysis of interest rate risk by estimating the impact on the net interest margin over a 12-month period on the Banking book positions, given a hypothetical change in interest rates. For this, it uses the repricing criterion and assumes a parallel positive change of 100 basis points (pbs) in the rates. The repricing criterion refers to the remaining term for the rate of an indexed transaction to be adjusted according to its market benchmark.

The table below shows the net interest margin sensitivity:

	<b>Increase of 100 bp</b>	
	<b>2016</b>	<b>2015</b>
Investments at maturity	311,111	480,556
Interbank deposits and loans	(9,395,835)	(9,153,471)
Client loans	27,787,744	27,065,423
Client deposits	(11,758,572)	(11,291,909)
Sensitivity of net interest margin	<u>6,944,449</u>	<u>7,100,599</u>

Given an increase scenario in interest rates, a positive net sensitivity would imply a greater sensitivity of the asset, and therefore, a favorable impact on the net interest margin. A negative sensitivity denotes a greater sensitivity of the liability and therefore a negative impact on the net interest margin. In case of a fall in interest rates, the behavior in the net interest margin would be opposite to that mentioned.

### **3.4. Operational risk**

Operational risk is the possibility of incurring losses due to deficiencies, failures or inadequacies of human resources, processes, technology, infrastructure or the occurrence of external events. This definition includes legal risk associated with such factors. Within this definition, the technology of information is established as a risk factor or category, which by its nature must be managed in a specialized way. For purposes of the Bank, the definition of operational risk also includes legal and reputational risk when they are associated to the previously mentioned factors.

The Bank's Operational Risk relies on managing the development of strategies for the management and implementation of policies, methodologies and tools for administration; with each of these elements designed to support the Bank in the development of its strategic plans, providing risk analysis and routing decisions to fulfill the objectives through proper management of risks. Additionally, it provides a comprehensive framework to ensure that the Bank considers and effectively manages operational risk, so that operating losses within acceptable levels are maintained and are protected against operational loss events that are foreseeable in the future.

The administration of the operational risk comprises the phases of identifying, measuring, monitoring, mitigating, controlling and informing; as well as keeping the losses within the acceptable levels and protecting the entity from future losses.

Process owners of all business lines and functional areas are responsible for the design and implementation of controls to mitigate operational risk and to monitor and demonstrate the effectiveness of controls that are operating within their daily processes.

Adequate internal control levels may be determined by reference to the scale and nature of each business operation, but must remain in compliance with the minimum standards established by the entity.

The framework for operational risk management includes the following responsibilities:

- Assigning responsibility at all levels and under a model of three lines of defense for operational risk management and maintaining an appropriate internal control environment under the supervision of a formal governance structure.
- Identification, measurement and assessment of operational risks and controls in sub-processes, products, channels, technology components, suppliers and particular cases of business through operational risk assessment.
- Scaling operational events (potential losses, quasi losses) and identification and reporting of incidents and report of aggregate operating losses.
- Monitoring key risk indicators - continuous monitoring of operational risk indicators established by lines of business and support functions for major risks and monitoring to be controlled within the tolerance limits established by Management.

Additionally within the Operational Risk Unit, Management of the Business Continuity Unit is included whose objective focuses on ensuring the integrity of people and the image of the Bank, in compliance with local regulations and guaranteeing customers, shareholders and strategic partners in terms of contingency (interruption or instability in the operation) the Bank is able to provide an effective response, organized to continue the service and critical operations, through the definition, implementation and administration of the program Business Continuity.

Within the scope of management of the Business Continuity Unit, it is established the responsibility for all areas to participate in the Business Continuity Program being responsible for designing, updating, implementing and testing of recovery strategies is established; taking into account risks to business, business impact analysis (BIA), resource requirements and effective communication.

The policy framework of the Business Continuity Unit defines four fronts as tiers of its management being such fronts: technology, infrastructure, operations and people.

### **3.5. Capital management**

The Bank's regulators, the Superintendency of Banks of Panama and the Superintendency of Securities Market, require the Bank to maintain an indicator of total capital measured against risk-based average assets.

The Panamanian Banking Law establishes a minimum paid-in capital of B/.10,000,000 for general license banks and capital funds may not be less than 8% of their assets weighted according to their risks. For the purposes of the assets, they should be considered net of their respective provisions or reserves and with the weightings indicated in Agreement 3-2016 of the Superintendency of Banks of Panama.

The Bank analyzes its capital considering the following two tiers, as interpreted by Management of the Basel Agreement, which is applied in the standards of the Superintendency of Banks of Panama based on Agreement 1-2015 of February 3, 2015, for General License Banks, which establishes the following:

Capital funds for purposes of calculating capital requirements and the capital adequacy ratio are detailed as follows:

- Primary capital composed of:
  - Ordinary primary capital
  - Additional primary capital
- Secondary capital
- Dynamic provision

Common primary capital - Consists of the following elements: Paid-in stock capital includes share capital coming from capitalized retained earnings. Issuance premiums resulting from instruments included in the common primary capital (capital paid in excess). The declared reserves, that is, those classified by the regulated subject as reserve of capital to reinforce their financial situation, coming from profits retained in their books and subject to what is established in article 69 of the Banking Law. Retained earnings, which are the undistributed profits of the current period and previous periods. The minority interests in capital accounts of consolidating subsidiaries, which meet the criteria for inclusion in the common primary capital.

Other accrued comprehensive income (total) items. In particular, unrealized net gains or losses on the assets available for sale portfolio. Other reserves authorized by this Superintendency. The regulatory adjustments applied to the calculation of common primary capital, referred to in Article 9 of this Agreement.

Additional primary capital - Includes the following items: Instruments issued by the regulated subject that meet the characteristics for its inclusion in the additional primary capital and are not included as common primary capital. Issuance premiums resulting from instruments included in the additional primary capital. Instruments issued by consolidated subsidiaries of the regulated subject that are in the possession of third parties, that fulfill the characteristics for inclusion in the additional primary capital and that are not included in the common primary capital.

The regulatory adjustments applied to the calculation of the additional primary capital referred to in Article 9 of the Agreement 1-2015.

Secondary capital - Includes the following elements: Instruments issued by the regulated subject that meet the criteria for inclusion in the secondary capital and not included in the primary capital. Issuance premiums resulting from instruments included in the secondary capital. Instruments issued by consolidated subsidiaries of the regulated subject and held by third parties that meet the criteria for inclusion in the secondary capital and that are not included in the primary capital. Reserves constituted for future losses, not identified herein. Provisions assigned to the identified impairment of individual assets evaluated individually or collectively are excluded.

The aforementioned reserves will not exceed a maximum of 1.25 percentage points of the assets weighted by credit risk. This paragraph excludes the reserves constituted in the form of dynamic provisions as established in Agreement No. 4-2013.

The regulatory adjustments applied to the calculation of secondary capital referred to in Article 9 of Agreement No. 1-2015.

In the case of branches and subsidiaries of Panamanian banks with General Licenses, banks must comply with the capital adequacy ratio for both individual and consolidated banks, including their financial subsidiaries and subsidiaries that they consolidate.

As regards to the calculation of risk assets, the Superintendency of Banks of Panama establishes the capital standards for credit risk in Agreement 3-2016, dated March 22, 2016, which regulates the calculation of assets weighted by credit risk and counterparty risk.

The Bank's policies are to ensure a solid capital, which can maintain the future development of investment and credit businesses within the market, maintaining the levels in terms of capital return of shareholders, and recognizing the need to maintaining a balance between returns on transactions and investments made, and the capital adequacy required by regulators.

The Bank maintains a consolidated regulatory capital position composed as follows, in the context of the financial statements taken as a whole, in accordance with the capital rules set out in Agreement 1-2015 and the risk weighting rules set out in Agreement 3-2016, and reported to the Superintendency of Banks of Panama for the year ended At December 31, 2016.

	<b>2016</b>	
<b>Primary capital (tier 1)</b>		
Common shares		11,325,781
Additional paid-in capital		743,744,192
Reserve for valuation of investment securities		24,326,992
Retained earnings		<u>144,037,766</u>
Total common primary capital (CPC)		<u>923,434,731</u>
Less: regulatory CPC adjustments		
Deferred tax assets and tax credits not used		45,182,544
Goodwill (Note 14)		61,193,018
Intangible assets (Note 14)		<u>14,135,988</u>
Total common primary capital deductions		<u>120,511,550</u>
<b>Additional primary capital</b>		
Preferred shares		-
Total common primary capital:		<u>802,923,181</u>
<b>Secondary capital (tier 2)</b>		-
<b>Dynamic reserve:</b>		<u>92,896,149</u>
Total regulatory capital		<u>895,819,330</u>
Total risk weighted assets		<u>6,221,151,140</u>
<b>Capital indexes</b>	<b>Minimum required</b>	<b>Results 2016</b>
Common primary capital	<u>4.50%</u>	<u>12.9%</u>
Primary capital	<u>6.00%</u>	<u>12.9%</u>
Total capital	<u>8.00%</u>	<u>14.4%</u>
Leverage coefficient	<u>3.00%</u>	<u>8.7%</u>

At December 2015, the regulatory capital position reported to the Superintendency of Banks of Panama was calculated under Agreement 5-2008, on a basis of consolidated financial statements:

	<b>2015</b>
<b>Primary capital (tier 1)</b>	
Common shares	11,325,781
Additional paid-in capital	743,744,192
Retained earnings	101,460,076
Complementary tax	(6,361,542)
Dynamic equity reserve	88,525,106
Less:	
Goodwill (Note 14)	<u>61,193,018</u>
Total	877,500,595
<b>Secondary capital (tier 2)</b>	
	<u>-</u>
Total regulatory capital	<u>877,500,595</u>
Total assets weighted based on risk	<u>6,164,931,057</u>
<b>Capital indexes</b>	
Total regulatory capital expressed in percentage in percentage on assets weighted based on risk	<u>14.2%</u>
Total of tier 1 expressed in percentage on assets weighted based on risk	<u>14.2%</u>

#### **4. Segment information**

The Bank's operations include support services and support from its Parent Company. The cost of these functions are distributed to the various lines of business under systematic and consistent basis, where appropriate. In addition, revenues and expenses generated by these segments that interact with each other in the normal course of operations and have a financial impact on its results, are considered in this distribution, which form an integral part of the Bank.

Segment information is presented for the Bank's line of business as follows:

##### Personal banking and SMEs

This line of business provides products and services focused to meet the financial needs of individuals and companies. Individuals are served through four segments: People, Plus, Preferred, and private; on the other hand, corporate clients are segmented into: small SMEs, internal SMEs and large SMEs. The products offered by this line include: checking and saving accounts; fixed time deposits; consumer loans, auto and home mortgage; leasing and commercial loans.

### Corporate and government banking

This line of business is responsible for addressing local and international corporates, as well as the Panamanian Government and public sector institutions. Corporate and Government Banking offers integrated services banking platform for a variety of commercial loans, deposits and cash management services, letters of credit and leasing; and investment banking and trust services.

### Valores Banistmo

This line of business offers products and services of capital markets directed to natural and legal persons. Among the products offered by this line are: brokerage and custody of fixed income instruments, variable income; in house funds and third-party funds. In addition, third-party portfolio management (discretionary management of portfolio investments) is offered.

The composition of the business segments is described as follows:

	2016 (in thousands of Balboas)			
	Personal banking and SMEs	Corporate and government banking	Valores	Total
Interest and commission income	260,306	195,922	244	456,472
Expenses from interest and provisions	(152,421)	(112,994)	-	(265,415)
Transfer pricing	16,127	(16,127)	-	-
Other income	35,628	28,629	1,660	65,917
General and administrative expenses	(133,955)	(78,220)	-	(212,175)
Net profit before income tax	<u>25,685</u>	<u>17,210</u>	<u>1,904</u>	<u>44,799</u>
Total assets	<u>4,115,668</u>	<u>5,019,079</u>	<u>39,353</u>	<u>9,174,100</u>
Total liabilities	<u>4,438,151</u>	<u>3,727,498</u>	<u>734</u>	<u>8,166,383</u>
	2015 (in thousands of Balboas)			
	Personal banking and SMEs	Corporate and government banking	Total	
Interest and commission income	224,281	188,488	412,769	
Expenses from interest and provisions	(117,095)	(58,215)	(175,310)	
Transfer pricing	18,887	(18,887)	-	
Other income	12,906	34,049	46,955	
General and administrative expenses	(127,352)	(72,039)	(199,391)	
Net profit before income tax	<u>11,627</u>	<u>73,396</u>	<u>85,023</u>	
Net profit of the year coming from discontinued activities, net of income tax	<u>24,728</u>	<u>-</u>	<u>24,728</u>	
Total assets	<u>3,673,249</u>	<u>5,247,676</u>	<u>8,920,925</u>	
Total liabilities	<u>4,196,453</u>	<u>3,776,704</u>	<u>7,973,157</u>	

## 5. Fees, other commissions and other income

Breakdown of income from fees, other commissions and other income is presented below:

	2016	2015
Fees and other commissions on:		
Transfers	30,833	20,969
Trust management	1,313,827	1,159,117
Custody	105,264	65,168
Letters of credit and document collections	6,028,324	7,181,269
Debit and credit cards	55,503,976	50,309,342
Banking services	20,735,121	19,324,726
Others	9,181,455	2,577,522
	<u>92,898,800</u>	<u>80,638,113</u>
Other net income:		
Banking services	1,652	59,580
Net gain in sale of foreclosures	1,748,898	2,434,322
Gain on fixed asset sale	876,269	49,321
Other income	2,146,112	2,133,996
	<u>4,772,931</u>	<u>4,677,219</u>

## 6. Net gain (loss) in securities and derivatives

Net gain (loss) in securities and derivatives, included in the consolidated statement of profit or loss is summarized as follows:

	2016	2015
Net loss in hedge contracts	(1,960,139)	(3,344,335)
Gain (loss) in derivative contracts	1,243,099	(2,863,018)
Change in the fair value of hedge item – fair value hedge (Note 10)	(926,078)	987,625
Gain (loss) on purchase and sale of foreign currencies (Note 11)	568,996	(453,988)
Net profit on sale of securities at fair value	183,101	236,446
Net unrealized gain on securities at fair value through profit or loss (Note 10)	1,720,682	(60,565)
Net realized gain on securities available for sale (Note 10)	3,217,127	2,262,916
Gain in currency conversion	848	1,417
Net gain (loss) in foreign exchange currency	5,644	(13,353)
Dividends over investment available for sale	1,536,803	1,359,001
	<u>5,590,083</u>	<u>(1,887,854)</u>

## 7. Expenses and other provisions

The detail of other provisions, expenses for commissions, salaries and other employee costs, and other expenses is presented below:

	2016	2015
Provision for litigations	797,316	69,348
Provision for foreclosures	196,119	83,467
Provision for contingencies (Note 21)	7,093,482	-
	<u>8,086,917</u>	<u>152,815</u>
Commission expenses:		
Brokerage commissions	58,689	44,990
Credit cards	32,938,632	33,609,607
Banking correspondents	416,985	327,206
Other commissions	3,930,900	2,490,665
	<u>37,345,206</u>	<u>36,472,468</u>
Salaries and other employee costs:		
Salaries	61,693,754	58,194,934
Severance pay	7,953,558	7,380,552
Employee benefits	6,463,789	6,441,181
Seniority premium and indemnity	3,512,925	4,286,271
Training	1,001,034	944,743
Others	726,970	891,161
	<u>81,352,030</u>	<u>78,138,842</u>
Other expenses:		
Insurance	1,179,266	1,139,170
Stationary and office supplies	1,569,940	2,093,288
Energy and communications	6,838,526	8,536,748
Maintenance and cleaning	7,579,642	7,183,295
Taxes, other than income tax	7,476,928	8,193,090
Transportation	610,897	652,802
Cash transportation	1,610,377	1,382,494
Surveillance	3,188,448	2,837,465
Trips and meetings	1,031,587	1,017,703
Technology support	18,959,334	19,042,521
Other amortizations	335,871	186,356
Others	13,313,921	14,928,083
	<u>63,694,737</u>	<u>67,193,015</u>

## **8. Taxes**

Income tax returns of the Bank and its subsidiaries are subject to examination by the local tax authorities for the last three (3) years, including the year ended December 31, 2016, in accordance with current tax regulations.

In accordance with current tax regulations, companies incorporated in Panama are exempt from income taxes on profits derived from foreign operations, interest earned on deposits with banks operating in Panama, and investment securities issued by the Government of Panama and the securities listed by the Superintendency of the Securities Market and traded through the Panama Stock Exchange (Bolsa de Valores de Panamá, S.A.).

By Official Gazette No.26489-A, Law No.8 was published on March 15, 2010 which amends the general income tax rates. For financial institutions, the current interest tax rate is 25% as of January 1, 2014.

Law No.52 as of August 28, 2012 reinstated the payment of the estimated income tax as of September 2012. According to that law, the estimated income tax should be paid in three equal amounts during the months of June, September and December of each year.

Law No.8 of March 15, 2010 introduced the method of presumptive taxation stating that legal entities which earn income in excess of one million five hundred thousand dollars (B/.1, 500,000) must determine its taxable base in an amount whichever is greater of: (a) the net taxable income calculated by the ordinary method established in the Tax Code and (b) the net taxable income resulting from applying four point sixty-seven percent (4.67%) to the total taxable income.

Legal entities that incur in losses due to the presumptive income tax method or, if its effective rate when applying the presumptive method exceeds the tax rate applicable to net taxable income under the ordinary method for the fiscal period, may request the Tax Authorities an authorization to calculate the tax under the ordinary method. The Bank has historically applied the ordinary method for the income tax calculation.

Law No.33 of September 30, 2010, amended by Law No.52 of August 28, 2012, added Chapter IX to Title I of Book Fourth of the Tax Code, denominated Adequacy Standards to the Treaties or Agreement for the Avoidance of Double International Taxation, establishing the regime of transfer pricing applicable to the taxpayer that perform transactions with related parties abroad. These taxpayers must determine their income, cost and deductions for tax purposes in their tax returns, based on the price or amount that independent parties would have agreed upon under similar circumstances in conditions of free competition, using the methods set out in the referred Law 33.

This law establishes the obligation to present an information statement of transactions with related parties (Report 930 within nine months after the end of the corresponding fiscal year, as well as to have, at time of filing the report, a transfer pricing study supporting the statement by means of Report 930). This study should be provided at the request of the Tax Authorities, within 45 days counted as of the notification of the requirement. The failure to file the information statement will result in a penalty equal to one (1%) of the total value of transactions carried out with related parties.

As disclosed in Note 22 to these consolidated financial statements, the Bank entered into transactions with related parties. Since fiscal year 2012, the Bank is obligated to comply with the report even if its related parties are residents of countries with which the Republic of Panama has not signed these agreements.

Analyses of transactions between foreign related companies for the periods 2013-2014 and 2015 have not had an impact on the respective income tax returns. Similarly, the Administration will carry out the analysis for the 2016 period and does not expect the analysis to impact the tax return for that year.

**8.1. Amount recognized in the statement of profit or loss**

The detail of the (benefit) income tax expense on continuing operations is as follows:

	<b>2016</b>	<b>2015</b>
Income tax:		
Current period	14,811,744	17,063,621
Prior period adjustment	(23,972)	4,644
	<u>14,787,772</u>	<u>17,068,265</u>
Deferred tax:		
Reserve for loan losses	(13,645,167)	(1,045,560)
Provision for credit card awards and litigations	(1,975,548)	(58,697)
Provisions other receivables	(202,480)	(937,500)
	<u>(15,823,195)</u>	<u>(2,041,757)</u>
Total (benefit) income tax expense	<u>(1,035,423)</u>	<u>15,026,508</u>

**8.2. Reconciliation of income tax**

Reconciliation of (benefit) of income tax expense with profit before income tax is presented below:

	<b>2016</b>	<b>2015</b>
Profit before income tax	<u>44,798,922</u>	<u>85,023,104</u>
Income tax calculated at 25%	11,199,731	21,255,776
Foreign income, exempt or non-taxable, net	(35,895,207)	(27,822,080)
Non-deductible costs and expenses	23,610,746	21,513,146
Income tax from previous years	(23,972)	4,644
Effects from the application of different local tax rates	73,279	75,022
Income tax	<u>(1,035,423)</u>	<u>15,026,508</u>

Effective income tax rate:

	<b>2016</b>	<b>2015</b>
Profit before income tax	44,798,922	85,023,104
Income tax expense	<u>(1,035,423)</u>	<u>15,026,508</u>
Effective income tax rate	<u>2.31%</u>	<u>17.67%</u>

Management made its estimates of deferred income tax asset, using the tax rate in force according to the tax legislation.

The conciliation of deferred income tax asset for the previous year with the current year is as follows:

	<b>2016</b>			<b>2015</b>			
	<b>Beginning balance</b>	<b>Recognition in profit or loss</b>	<b>Final balance</b>	<b>Beginning balance</b>	<b>Recognition in profit or loss</b>	<b>Discontinued operations</b>	<b>Final balance</b>
Reserve for loan losses	16,578,932	13,645,167	30,224,099	15,584,213	994,719	-	16,578,932
Provision for credit card awards and litigations	1,769,007	1,975,548	3,744,555	1,805,103	58,697	(94,793)	1,769,007
Provisions for other accounts receivable	937,500	202,480	1,139,980	-	937,500	-	937,500
Reserves for insurance, others	-	-	-	52,018	-	(52,018)	-
Liabilities for intangible assets	-	-	-	<u>(50,841)</u>	<u>50,841</u>	-	-
	<u>19,285,439</u>	<u>15,823,195</u>	<u>35,108,634</u>	<u>17,390,493</u>	<u>2,041,757</u>	<u>(146,811)</u>	<u>19,285,439</u>

Based on current and projected results, the Administration of the Bank and its subsidiaries consider that there will be sufficient taxable income to absorb deferred tax assets that are presented in the consolidated statement of financial position.

## 9. Cash and cash equivalents

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

	<b>2016</b>	<b>2015</b>
Cash and cash effects	203,946,735	224,237,933
Demand deposits	364,594,966	344,962,147
Fixed time deposits	<u>376,901,021</u>	<u>377,688,125</u>
	<u>945,442,722</u>	<u>946,888,205</u>
Less:		
Restricted demand deposits	(220,000)	-
Restricted fixed time deposits	(3,500,000)	(10,730,000)
Original fixed time deposits over three months	<u>(42,782,914)</u>	<u>(122,676,852)</u>
<b>Cash and cash equivalents for purposes of the consolidated statement of cash flows</b>	<u><b>898,939,808</b></u>	<u><b>813,481,353</b></u>

At December 31, 2016, annual interest rates earned by the time deposits ranged between 0.06% and 5.85% (2015: 0.35% and 7.50%).

At December 31, 2016, foreign demand deposit for B/.220,000 guarantees the use of the Pershing LLC platform as international custodian.

At December 31, 2016, Deposits in foreign banks for B/.3,500,000 (2015: B/.10,730,000) were restricted as collateral of derivative instruments of interest rate swap and forward operations with currencies with those counterparts where Margin Call clauses exist. These deposits have original maturities of three months or less.

## 10. Investments in securities

	2016	2015
Investments in securities:		
Securities at fair value with changes in profit or loss	120,574,037	198,635,060
Securities available for sale	507,264,584	579,342,338
Securities held to maturity	107,496,176	92,485,115
	<u>735,334,797</u>	<u>870,462,513</u>

Investments in securities are detailed below:

### 10.1. Securities at fair value with changes in profit or loss

	2016		2015	
	Fair value	Cost original	Fair value	Cost original
Corporate bonds	31,993,996	30,848,383	32,848,566	32,908,598
Bonds from the Republic of Mexico	57,341,712	57,124,110	115,695,268	115,338,022
Bonds from the United States of America	11,764,258	13,182,449	7,928,247	7,944,805
Bonds from the Republic of Panama	10,302,089	10,299,691	15,856,701	15,732,443
Bonds from the Republic of Costa Rica	9,171,982	9,157,153	26,306,278	26,009,752
	<u>120,574,037</u>	<u>120,611,786</u>	<u>198,635,060</u>	<u>197,933,620</u>

During the period ended December 31, 2016, a gain was recognized on securities at fair value through profit or loss for B/.1,720,682 (2015: B/.60,565 loss) in the consolidated statement of profit or loss and is presented under the item of net profit (loss) in securities at fair value with changes in profit or loss. (see Note 6).

Fair values are determined by the publicly quoted prices of the bonds published in stock-exchanges and electronic systems of securities information.

During 2016, no reclassifications of investment securities have occurred under this category.

**10.2. Securities available for sale**

	<b>2016</b>	<b>2015</b>
Bonds from the Republic of Panama	262,629,218	272,392,892
Bonds from the Republic of Colombia	42,483,944	44,461,374
Bonds from the Republic of Mexico	3,300,579	36,490,250
Bonds from the United States of America	94,865,952	128,418,671
Certificate of Participation (CERPAN)	75,741,614	83,345,030
Equity securities	<u>28,243,277</u>	<u>14,234,121</u>
	<u>507,264,584</u>	<u>579,342,338</u>

At December 31, 2016, the Bank holds equity securities for an amount of B/.341,360 (2015: B/.6,322,762), which are recorded at their acquisition cost due to the inability to determine a reliable fair value. The Bank conducts annual reviews to assess that the values of these investments have not suffered a permanent impairment in which there is a need to adjust the value of the investment. The equity shares which are held at cost are not part of an active market, and the Bank plans to keep them on their books.

The movement of investments available for sale are detailed below:

	<b>2016</b>	<b>2015</b>
Balance at beginning of the year	579,342,338	544,809,952
Additions	216,404,000	336,298,781
Sales and redemptions	(308,792,751)	(227,008,840)
Balance of acquired subsidiary	75,000	-
Gain in sale of investment securities	3,217,127	3,102,480
Transfers to gains or losses of change in fair value of the hedge item	926,078	(987,625)
Allowance for impairment	-	(399,643)
Net change in fair value	16,290,829	(8,127,510)
Reclassified portion to assets classified as held for sale (see Note 25)	-	(69,946,922)
Accrued interest receivable	(198,037)	1,601,665
Balance at end of year	<u>507,264,584</u>	<u>579,342,338</u>

Sales transactions during the year 2016 generated a gain of B/.3,217,127 (2015: B/.2,262,916) in the consolidated statement of profit or loss and are presented in the net income (loss) item in securities and derivatives. (see Note 6 and Note 25).

At December 31, 2016, acumulative valuation of the hedging derivative was recognized for B/.1,048,371 (2015: B/.1,974,448) representing the portion of the unrealized gain or loss attributable to the hedged risk in those securities by derivatives designated for fair value hedge.

During the year ended December 31, 2016, the Bank recognized an unrealized loss for B/.926,078 (2015: gain of B/.987,625) in the consolidated statement of profit or loss, as a result of hedging activities which is presented in the results of the period in the net gain (loss) item in securities and derivatives. (see Note 6).

Negotiable Certificates of Participation (CERPANES), with a carrying value of B/.60,445,391 (2015: B/.69,904,153) and a market value of B/.64,846,598 (2015: B/.74,630,149) guarantee the loan received from Citibank, N. A. for a total of B/.46,000,000. (see Note 16).

The annual interest rates from securities available for sale range between 0.50% and 7.38% (2015: 0.50% and 7.38%).

Local government bonds in the portfolio of the Bank such as Notes and Treasury Bonds of the Republic of Panama are characterized by maintaining a good liquidity level because these public debt instruments are part of the "market makers" program.

During 2016, there have been no reclassifications of investment securities under this category.

### 10.3. *Securities held to maturity*

	2016	2015
Corporate bonds	<u>107,496,176</u>	<u>92,485,115</u>

The Bank holds corporate bonds in the amount of B/.7,071,667 (2015: B/.7,068,833) with options for early redemption by the issuer. The issuer may redeem the bond either wholly or partially during the first two years of the issue by paying a premium of 1% on the unpaid balance. From the third year on, the issuer may redeem with a one hundred percent (100%) value without payment of penalty or premium.

During 2016, no investment security reclassifications have risen under this category.

## 11. *Derivatives*

Type of derivative instrument	Total assets 2016	Total Liabilities 2016
Forwards and cash currency transactions	5,728,561	(4,119,342)
Interest rate swap	<u>1,942,307</u>	<u>(2,368,776)</u>
Total derivative instruments	<u>7,670,868</u>	<u>(6,488,118)</u>

Type of derivative instrument	Total assets 2015	Total Liabilities 2015
Forwards and cash currency transactions	3,992,220	(1,309,228)
Interest rate swap	<u>1,250,016</u>	<u>(3,867,380)</u>
Total derivative instruments	<u>5,242,236</u>	<u>(5,176,608)</u>

### 11.1. *Currency exchange*

The Bank enters into derivative contracts for the purchase/sale of foreign currency, in order to meet the needs of its clients and as a strategy for the mitigation of exchange rate risk. In this sense, the Bank manages and controls the risk on these derivatives within the management of the treasury market risk, by having risk exposure limits to the exchange rate.

At December 31, 2016, the Bank held subscribed future contracts for the purchase/sale of foreign currencies, to cover their own operations and of clients as follows:

Currency	2016		2015	
	Nominal value equivalent to Balboas	Fair value assets (Liabilities)	Nominal value equivalent to Balboas	Fair value assets (Liabilities)
<i>Future contracts – purchase of currencies</i>				
Costa Rican Colones	3,000,000	15,569	12,000,000	166,503
Euros	44,357,440	(981,897)	15,840,096	(212,669)
Sterling pounds	282,321	(40,958)	-	-
Mexican pesos	10,233,988	(571,100)	20,273,742	(271,252)
Swiss francs	24,562	(22)	50,902	1,623
Japanese yens	36,859,429	(2,399,270)	9,746,490	135,039
Total		<u>(3,977,678)</u>		<u>(180,756)</u>
<i>Future contracts – sale of currencies</i>				
Costa Rican colones	9,252,600	131,525	45,433,055	(274,187)
Euros	43,272,452	1,051,068	15,902,689	245,857
Mexican pesos	69,001,116	1,888,226	136,246,352	3,009,084
Swiss francs	-	-	51,434	(1,091)
Sterling pounds	272,366	42,083	-	-
Japanese yens	36,934,242	2,473,995	9,765,625	(115,915)
Total		<u>5,586,897</u>		<u>2,863,748</u>

The average maturity of these contracts is 2.73 months (2015: 2.24 months).

During the period ended December 31, 2016, the Bank recognized a profit of B/.568,996 (2015: loss for B/.453,988) in the consolidated statement of profit or loss, as a result of buying and selling foreign currencies in external forward foreign currency (see Note 6).

## 11.2. Interest rate swaps

### Interest Rate Swaps:

At December 31, 2016, the Bank had recorded eight (2015: seven contracts) interest rate swap contracts with a nominal value of B/.67,057,504 (2015: B/.51,864,980) and fair value recorded in assets of B/.1,926,944 (2015: B/.1,250,016) with maturity dates from September 2019 until February 2026.

Additionally, at December 31, 2016, the Bank had recorded six (2015: nine contracts) interest rate swap contracts with a nominal value of B/.61,057,504 (2015: B/.59,064,980) and fair value recorded in liabilities of B/.1,286,942 (2015: B/.1,078,759) with maturity dates from September 2019 until April 2026.

### 11.2.1. Fair value hedges

#### Fair value hedges of interest rate risk:

The Bank uses interest rate swaps to hedge its exposure to changes in the fair values of its fixed rate financial instruments or assets attributable to changes in market interest rates.

Fair values of derivatives designated as fair value hedges are as follows:

	2016		2015	
	Nominal value	Fair value	Nominal value	Fair value
Interest rate swaps	101,930,000	(1,066,471)	101,930,000	(1,995,120)

### 11.2.2. Cash flow hedges

#### Macro cash flow hedges:

The Bank uses interest rate swaps to cover interest rate risks from its portfolio of time deposits.

The fair values of derivatives designated as macro cash flow hedges are as follows:

	2016		2015	
	Nominal Value	Fair value	Nominal value	Fair value
Interest rate swaps	-	-	200,000,000	(793,501)

At December 31, 2015, cash flows related to macro hedges were as follows:

	2015				Total
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	
Cash entry flows	-	307,372	-	-	307,372
Cash output flows	-	(1,100,873)	-	-	(1,100,873)
	-	(793,501)	-	-	(793,501)

During the year ended December 31, 2016, the amount of B/.793,501 (2015: B/.3,430,634) were transferred to the consolidated statement of profit or loss, related to the maturity on March 2016 of the derivative interest rate swap contract designated as cash flow hedge and with a nominal value of B/.200,000,000.

## 12. Loans

The loan portfolio presents the following breakdown:

	2016			2015		
	Internal	External	Total	Internal	External	Total
<b>Corporate:</b>						
Commercial	1,613,881,771	71,976,942	1,685,858,713	1,703,635,089	109,826,724	1,813,461,813
Industrial	372,898,489	270,200,630	643,099,119	396,726,579	262,497,537	659,224,116
Agricultural	126,816,217	101,003,255	227,819,473	114,101,864	93,627,779	207,729,643
Construction	1,057,252,901	-	1,057,252,901	876,187,446	4,661,723	880,849,169
Financial companies	8,952,013	7,522,281	16,474,294	19,221,341	-	19,221,341
Cooperatives	4,976,885	-	4,976,885	3,473,340	-	3,473,340
<b>Total Corporate</b>	<b>3,184,778,276</b>	<b>450,703,108</b>	<b>3,635,481,384</b>	<b>3,113,345,659</b>	<b>470,613,763</b>	<b>3,583,959,422</b>
<b>Consumer:</b>						
Personal	884,248,968	-	884,248,968	820,559,408	-	820,559,408
Residential mortgages	2,140,352,527	-	2,140,352,527	1,867,309,267	-	1,867,309,267
Credit cards	239,343,575	-	239,343,575	189,797,326	-	189,797,326
Cars	160,810,716	-	160,810,716	178,894,576	-	178,894,576
Financial leases receivable	137,936,872	-	137,936,872	99,796,886	-	99,796,886
<b>Total Consumer</b>	<b>3,562,692,658</b>	<b>-</b>	<b>3,562,692,658</b>	<b>3,156,357,463</b>	<b>-</b>	<b>3,156,357,463</b>
<b>Government:</b>						
Government	67,699,759	-	67,699,759	80,325,892	-	80,325,892
	<u>6,815,170,693</u>	<u>450,703,108</u>	<u>7,265,873,801</u>	<u>6,350,029,014</u>	<u>470,613,763</u>	<u>6,820,642,777</u>

At December 31, 2016, the range of annual interest rates on loans fluctuates between 6.07% and 30.00% (2015: 6.31% and 30.00%).

Below are detailed loans classified per type of interest rate:

	2016	2015
Fixed rate	1,881,080,428	1,857,168,410
Fixed rate with change option	2,557,330,097	2,306,352,688
Variable rate	2,827,463,276	2,657,121,679
	<u>7,265,873,801</u>	<u>6,820,642,777</u>

Loans for B/.494,496,769 (2015: B/.433,122,307) were guaranteed with time deposits and client savings accounts.

The movement of the allowance for loan losses impairment, corresponding to continuing operations is detailed below:

	<b>2016</b>	<b>2015</b>
Balance at beginning of the year	66,315,731	62,475,656
Provision of the year	101,927,464	39,961,527
Written-off loans	(60,119,876)	(47,666,143)
Recoveries	14,001,370	11,544,691
Balance at end of year	<u>122,124,689</u>	<u>66,315,731</u>

The loan portfolio includes finance lease receivables whose maturity profile is detailed below:

	<b>2016</b>	<b>2015</b>
Minimum payments of financial leases receivable:		
Up to 1 year	3,387,353	3,372,516
From 1 to 3 years	38,157,296	27,721,196
From 3 to 5 years	82,737,091	56,429,350
5 years and more	31,352,301	25,035,968
Total minimum payments	<u>155,634,041</u>	<u>112,559,030</u>
Less: unearned interest	<u>(17,697,170)</u>	<u>(12,762,144)</u>
	<u>137,936,871</u>	<u>99,796,886</u>

At December 31, 2016, annual interest rates on financial leases range between 4.00% and 9.00% (2015: 4.00% and 10.00%).

During the period ended December 31, 2016, the Bank recorded tax credits for the approximate amount of B/.19,972,128 (2015: B/.14,061,391), as interest revenue from the portfolio of preferential mortgage loans. At December 31, 2016, the Bank has pending requests made to the tax authorities for tax credits for the amount of B/.46,450,270 (2015: B/.40,224,348). The Bank's Management estimates that it will not incur losses in the recovery of these tax credits.

Details of the tax credit is presented below:

	<b>2016</b>	<b>2015</b>
Tax credit with resolution	10,365,220	4,166,183
Tax credit pending resolution	28,320,508	29,182,475
Tax credit pending validation	18,129,762	8,052,755
Credit – sale of Seguros Banistmo S.A.	-	2,179,290
	<u>56,815,490</u>	<u>43,580,703</u>

This benefit is equivalent to the difference between income that would have been received by the Bank if it had charged the benchmark interest rate of the market that had been in force during that year and the actual income received as interest for each of the preferential mortgage loans.



During the year ended December 31, 2016, there were disposals for B/.6,625,830 (2015: B/.6,103,424) and sale of assets for B/.2,154,163 (2015:B/.3,490,637). In addition, as at December 31, 2016, a loss occurred from disposals for B/.27,790.

#### 14. Goodwill and other intangible assets, net

##### 14.1. Goodwill

Goodwill is presented below:

	<b>2016</b>	<b>2015</b>
Balance at beginning and end of year	<u>61,193,018</u>	<u>61,193,018</u>

Goodwill assigned to each business unit is detailed below:

	<b>2016</b>	<b>2015</b>
Consumer	17,868,358	17,868,358
Corporate	<u>43,324,660</u>	<u>43,324,660</u>
	<u>61,193,018</u>	<u>61,193,018</u>

For the purpose of impairment testing, goodwill is allocated to the operating divisions which represent the lowest level within the Bank and goodwill is monitored for internal administration purposes. The recoverable amounts of the business units of personal financial services and commercial banking have been calculated based on their value in use. Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continued use of the unit. The calculation of value in use was based on the following key assumptions:

- Actual operating results for the second quarter of 2016 were used, as well as expectations for the rest of the year based on the observed performance and business plan. Future cash flows were projected using average growth rates based on long-term assumptions of the growth rates. The forecast period is based on the long-term perspective of the Bank regarding the operation of these units determined in 5 years.
- The discount rate (before tax effects) of 9.50% was applied to determine the amounts demanded for the business units of personal financial services and commercial banking. This discount rate is calculated on the basis of the CAPM model (Capital Asset Pricing Model) to determine the cost of equity assigned to these units.
- The perpetuity rate was used as a long-term assumption of the GDP growth.

The key assumptions described above may change as economic and market conditions change. The Bank estimates that reasonably possible changes in these assumptions are not expected to affect the recoverable amount of the business units or to decrease below the carrying amount.

#### 14.2. Software in use and in process

The summary of the software in use and in process is presented below:

	2016	2015
Software in use	54,423,145	72,319,016
Software in process	3,166,596	2,489,689
Amortization of software	<u>(43,453,753)</u>	<u>(59,459,113)</u>
	<u>14,135,988</u>	<u>15,349,592</u>

The movement of the software in use is summarized as follows:

	2016	2015
Balance at beginning of the year	(59,459,113)	(60,773,575)
Amortization expenses for the year	(5,439,970)	(5,131,361)
Decreases	<u>21,445,330</u>	<u>6,445,823</u>
Balance at end of year	<u>(43,453,753)</u>	<u>(59,459,113)</u>

During the year ended December 31, 2016, impairment losses were recognized in intangible assets derecognized for the amount of B/.1,034,102.

#### 15. Other assets

Other assets are summarized below:

	2016	2015
Tax credits	56,815,490	43,580,703
Prepaid taxes and expenses	18,846,664	20,643,459
Marketable and non-marketable foreclosed assets, net	14,658,191	3,395,914
Others	8,396,972	16,915,147
Severance funds	7,945,902	7,264,932
Accounts receivable, credit and debit card operations	5,149,359	5,599,097
Guarantee deposits	689,884	972,094
Accounts receivable, litigations	-	14,383,473
Accounts receivable, exchange transactions	-	291,472
	<u>112,502,462</u>	<u>113,046,291</u>

At December 31, 2015, the Bank held accounts receivable - litigations for B/.14,383,473, which were recovered by middle of 2016.

The marketable and non-marketable foreclosed assets are summarized as follows:

	2016	2015
Foreclosed marketable assets	15,964,353	3,861,617
Foreclosed non-marketable assets	198,043	186,311
Depreciation of foreclosed marketable and non-marketable assets	(563,542)	(511,887)
Impairment	<u>(940,663)</u>	<u>(140,127)</u>
	<u>14,658,191</u>	<u>3,395,914</u>

The movement of the amortization of tradable and non-tradable foreclosed assets which does not comply with IFRS 5 is summarized as follows:

	<b>2016</b>	<b>2015</b>
Balance at beginning of the year	(511,887)	(405,702)
Amortization expensed for the year	(335,871)	(186,356)
Decreases	284,216	80,171
Balance at end of year	<u>(563,542)</u>	<u>(511,887)</u>

## 16. Borrowings

Borrowings are summarized below:

	<b>2016</b>	<b>2015</b>
Obligations with institutions for financing of foreign trade, with various maturities up to 2017 and Libor interest rates between 1.50% and 1.89%.	138,353,357	113,835,450
Obligations with foreign financial institutions for the management of short and medium-term liquidity with various maturities up to July 2018 and Libor interest rates between 1.00% and 3.11%.	966,139,814	899,904,735
Obligations with local financial institutions for the management of short and medium-term maturities up to December 2018 Libor interest rates between 2.52% and 3.74%.	42,059,953	42,709,233
Obligations with multilateral entities for long-term liquidity management, maturing through November 2018 and Libor interest rates around 2.81%.	<u>40,146,518</u>	<u>40,115,593</u>
	1,186,699,642	1,096,565,011
Less: deferred commissions	<u>(1,927,983)</u>	<u>(3,425,350)</u>
	<u>1,184,771,659</u>	<u>1,093,139,661</u>

The Bank has no defaults of principal, interest or other contractual clauses regarding its obligations.

On December 31, 2016, the range of Libor interest rates fluctuates between 1.00% and 3.74% (2015: 0.13% and 3.28%).

On April 28, 2016, Citibank, N. A., granted Banistmo S.A., a line of credit of B/.46,000,000 with maturity on April 28, 2017, guaranteed with Negotiable Certificates of Participation (CERPANES) with a nominal value at December 31, 2016, for B/.60,445,391 (2015: B/. 69,904,153) and a market value of B/.64,846,598 (2015: B/.74,630,149). (see Note 10).

On October 6, 2014, The Bank of Tokyo Mitsubishi UFJ, JP Morgan and Wells Fargo structured a global syndicated loan to Banistmo S.A. for B/.400,000,000 maturing on October 6, 2017.

## 17. Other creditors

Detail of other creditors is presented below:

	2016	2015
Checks in circulation	44,098,310	44,525,078
Transitional accounts	36,087,138	39,879,522
Accumulated expenses	17,406,120	14,652,902
Other liabilities payable	24,087,555	25,668,943
Prepaid insurance client accounts payable	22,294,721	19,816,721
Unclaimed client balances	20,294,964	24,874,066
Retained funds for litigation matters	17,397,407	33,033,181
Employee provisions payable	10,979,569	10,463,849
FECI payable	7,814,873	6,122,974
Loyalty reserve	7,303,177	6,435,050
Income tax and other taxes	6,845,598	3,751,172
Commissions to be deferred	2,220,877	2,188,575
Employee benefits (Note 18)	2,215,809	2,123,462
Cashier checks	2,122,554	77,518
C.S.S. payable	1,837,491	1,639,460
Accounts payable - exchange transactions	-	291,231
	223,006,163	235,543,704

## 18. Employee benefits

They comprise all types of remuneration that the Bank provides to its workers in return for their services. Both long-term benefits and post-employment benefits are measured under an actuarial methodology, which involves actuarial calculations that require assumptions about future events.

### Post-employment benefits

#### Defined benefit pension plan

The Bank offers a defined benefit pension plan based on average salaries paid during the most recent 120 months prior to the employee's retirement date and years of service. This individual plan covers a certain group of employees employed by Chase Manhattan Corporation, N.A. (Merged with Banistmo formerly 'HSBC Bank Panamá' in 2000) as of July 31, 2000, and became employees of Banistmo S.A. And Subsidiaries as of August 1, 2000. The right to this plan is obtained by completing 10 years of service with the organization. At the end of December 2016, 64 participants are included in this plan (2 active participants, 31 participants with deferred benefits and 31 participants receiving benefits):

#### Defined benefit plan

	2016	2015
Balance at beginning of the year	(2,123,462)	(2,127,321)
Cost of current service	(1,000)	(543)
Interest expense	(106,000)	(77,419)
Gains (actuarial losses) derived from changes in assumptions	(158,675)	(44,020)
Benefits paid	173,328	125,841
Balance at end of year	(2,215,809)	(2,123,462)

Such funds are included in the figures of employee provisions payable – other creditors, within the consolidated statement of financial position.

Assets plan

The Bank has established an assets plan to ensure the benefits promised to its employees entitled to participate in the pension plan for former Chase employees, under the terms described above and to comply with the obligations described in the Panamanian labor code, which specifies the terms to ensure the availability of resources for the payment to be made in the event of an employee termination (voluntary or involuntary) or resignation.

The Assets Plan is invested in term deposit certificates, in order to reduce investment risk. The plan is managed by an independent fund and the allocation of assets by investment class and species is reviewed periodically, and when necessary, is adjusted according to the investment strategy. The investment assets of the plan are measured at fair value using significant unobservable data and are therefore classified as Level 3.

The assumption of expected return on assets represents the long-term rate of return based on historical returns, asset volatility trend and past fund experience.

The components of the periodic net cost of the aforementioned plans and the total of the charges (credits) recognized in the consolidated statement of profit or loss are shown below:

The following table details the change in the assets plan:

<b>Movement class</b>	<b>2016</b>	<b>2015</b>
Balance at beginning of the year	1,932,826	1,661,745
Interest income	99,566	396,922
Benefits paid	<u>(173,328)</u>	<u>(125,841)</u>
Balance at end of year	<u>1,859,064</u>	<u>1,932,826</u>

The economic assumptions used in determining the present actuarial value of the pension obligation and the projected pension obligations for the plan years, in nominal terms, were as follows:

<b>Main actuarial assumptions</b>	<b>2016</b>	<b>2015</b>
Discount rate	3.10%	3.65%
Salary increase	3.00%	4.50%
Long-term price inflation	2.00%	3.00%
Growth of pensions	0.00%	0.00%

The interest rate to be used to discount the post-employment benefits payable to workers for plans with and without assets should be determined by reference to market yields, at the balance sheet date, corresponding to high quality corporate bond issues or corporate obligations. In countries where there is no broad market for such securities, the yield corresponding to the bonds issued by Public Administrations at the balance sheet date should be used. In any case, both the currency and the period of the corporate or public bonds must correspond to the currency and the estimated payment period for the payment of the post-employment benefit obligations.

According to the information of December 31, 2016 provided by Bloomberg, the appropriate rate for the pension maturity period of the Pension and Seniority Premium plans (estimated at 8 years) is 3.10% per year (most near to 0.10 %), which is consistent with the yield curve of said bonds for 7 years (3.07%) and 15 years (3.35%).

### Sensitivity analysis

Defined benefit obligations (DBO) were calculated using the Projected Unit Credit method. Obligations and expenses will change in the future as a result of future changes in actuarial methods and assumptions, information of participants, provisions of the plan and regulation, or as a result of future gains and losses.

	<b>(Increase/Reduction)</b>		<b>Effect in DBO</b>
Discount rate	3.10%	Increase of 0,50%	(4.9%)
Discount rate	3.10%	Reduction of 0,50%	5.4%
Salary increase	3.00%	Increase of 0,50%	0.0%
Salary increase	3.00%	Reduction of 0,50%	(0.0%)
Mortality	RP-200	Increasing one year the life expectancy of the plan participants.	3.00%

### **19. Common shares**

The composition of capital common shares is summarized as follows:

	<b>2016</b>	<b>2015</b>
<b>Amount of authorized shares with nominal value of B/.1 each</b>	<b>20,000,000</b>	<b>20,000,000</b>
<b>Issued and outstanding shares</b>		
Balance at beginning of the year	11,325,781	10,000,001
Issuance of shares	-	1,325,780
Balance at end of year	<u>11,325,781</u>	<u>11,325,781</u>
Additional paid-in capital		
Balance at beginning of the year	743,744,192	612,491,972
Capital contribution	-	131,252,220
Balance at end of year	<u>743,744,192</u>	<u>743,744,192</u>
Total capital	<u>755,069,973</u>	<u>755,069,973</u>

### **20. Preferred shares**

The Bank maintained an issuance of preferred shares, registered with the Superintendency of Market Securities of the Republic of Panama.

During 2004, the Superintendency of Banks of Panama approved the new issuance of non-cumulative preferred shares for B/.150,000,000 to replace the preferred shares issued in 2001. This issuance did not have a maturity date and the issuer had the right to partially or fully redeem them from August 30, 2007 onwards.

By Resolution SBP-DS-N-6853-2014 of December 30, 2014, the Superintendency of Banks of Panama expressed no objection to the process of early redemption of all non-cumulative preferred shares issued by Primer Banco del Istmo, S.A. (currently Banistmo S.A.) in three series, namely, Series A, Series B and Series C, on August 30, 2004.

On January 30, 2015, it was reported to the Superintendency of Market Securities the Bank's decision to exercise its right of redemption. This decision was notified to the preferred shareholders on January 26, 27, and 28, 2015, through a local newspaper. On March 2, 2015 the total preferred shares issued and outstanding were redeemed for the amount of B/.147,151,800.

By Resolution SMV-695-16 of October 13, 2016, the Superintendency of the Securities Market of Panama, resolves to terminate the registration of non-cumulative preferred shares for a total of one hundred and fifty million dollars (USD\$150,000,000) authorized through Resolution CNV No.151-2004 of August 13, 2004 of the company Banistmo S.A. (Formerly Primer Banco del Istmo, S.A.).

## 21. Commitments and contingencies

In the normal course of business, the Bank maintains off-balance sheet credit risk to meet the financial needs of its customers. These financial instruments include letters of credit, guarantees, and loan commitments that involve, to varying degrees, elements of credit risk.

Guarantees issued on behalf of customers, commercial letters of credit and loan commitments carry exposure to credit loss risk in the event of non-performance by the customer, net of tangible guarantees securing these transactions. The Bank's credit policies and procedures to approve contingent credit are the same as those for extension of credit. It is the Administration's opinion that no material losses will be incurred by the Bank resulting from these contingent liabilities on behalf of the customers.

The financial instruments with off-balance credit risk not included in the consolidated statement of financial position are detailed as follows:

	<b>2016</b>	<b>2015</b>
Letters of credit	74,744,615	46,221,706
Guarantees, bonds and others	496,890,008	648,248,828
Loan commitments	<u>1,141,809,493</u>	<u>1,152,948,464</u>
	<u><b>1,713,444,116</b></u>	<u><b>1,847,418,998</b></u>

At December 31, 2016, the Bank maintains financial instruments with credit risk outside the consolidated statement of financial position classified under the categories of Normal and Special Mention in compliance with Agreement 4-2013. For the latter category, the Bank has established a reserve for B/.7,093,482 in the creditors account others in the consolidated statement of financial position. (see Note 3).

At December 31, 2016, there were legal claims filed against the Bank and its subsidiaries over categorized cases for an amount of B/.4,326,949 (2015: B/.7,618,789) plus interest and legal costs. The Bank's Management and its legal advisors estimate that the result of these cases will not result in a material adverse effect on the consolidated financial position of the Bank.

On those cases in which probabilities exist of an unfavorable outcome, the Bank maintains an assigned provision for this contingency of B/.1,228,294 (2015: B/.676,546) under the creditors' account others in the consolidated statement of financial position.

At December 31, 2016, the Bank maintains commitments with third parties arising from lease contracts of operating premises, which will expire during several dates in the upcoming years.

The value of the annual lease payments of the contracts for the next years is as follows

	<b>2016</b>	<b>2015</b>
2017	12,649,290	11,891,350
2018	11,738,604	11,735,122
2019	9,945,693	10,075,212
2020	8,765,913	8,546,855
Over 5 years	134,456,760	134,374,920

During the period ended December 31, 2016, the premises lease expense amounted to B/.13,373,053 (2015: B/.12,913,906).

## 22. Balances and transactions with related parties

The consolidated statement of financial position and consolidated statement of profit or loss include balances and transactions with related parties. The related parties with Bancolombia Group include transactions with Bancolombia, S. A. (Parent Company– Colombia), Banco Agrícola, S.A. El Salvador, Bancolombia (Panamá), S.A., Valores Bancolombia Panamá, S.A., Bancolombia Puerto Rico, Banco Agromercantil de Guatemala, S.A., Mercom Bank LTD and G.A.H. (Grupo Agromercantil Holding), summarized as follows:

	Directors and key management personnel		Bancolombia Group	
	2016	2015	2016	2015
<b>Assets</b>				
Deposits in banks	-	-	11,213,377	4,499,964
Loans	6,896,363	3,406,354	-	-
Accrued interest receivable	18,072	6,635	1,058	-
Investments	-	-	469,593	-

No provisions have been recognized due to impairment of financial assets with related parties.

The loans to directors and key management personnel are granted with the same terms and conditions that are available for other employees. The terms and conditions are based on those given to third parties adjusted for a lesser risk of credit. The loans to directors as at December 31, 2016 amounted to B/.6,896,363 (2015: B/.3,406,354) and have an average annual interest rate of 3.04% (2015: 2.99%). No long-term or post-employment benefits have been granted to directors or key management personnel.

	Directors and key management personnel		Bancolombia Group	
	2016	2015	2016	2015
<b>Deposits:</b>				
Demand and savings deposits	633,520	893,925	13,465,030	28,847,263
Time deposits	193,770	142,937	-	-
Interbank deposits	-	-	209,500,000	200,000,000
Borrowings	-	-	150,000,000	100,000,000
Accrued interest payable	1,748	3,180	1,389,547	564,474
Other liabilities	-	-	233,297	-

For the year ended December 31, 2016, the following income and expenses items are included in the aggregate amounts from the above described transactions:

	Directors and key management personnel		Bancolombia Group	
	2016	2015	2016	2015
<b>Interest income:</b>				
Loans	120,123	107,979	-	-
Deposits	-	-	86,652	-
Other income	-	-	-	8,394
<b>Interest expense on:</b>				
Deposits	9,235	26,322	2,364,000	390,889
Borrowings	-	-	3,421,540	1,837,728
<b>Banking services and others:</b>				
Commissions	-	-	1,070,297	-
<b>General and administrative expenses:</b>				
Salaries – short-term	3,038,259	2,839,492	-	-
Employee benefits – short-term	238,712	186,547	-	-
Leases	-	-	180,426	-

For the period ended December 31, 2016, fees were paid for B/.54,000 (2015: B/.35,500), for attendance to Board of Directors' meetings and support committees.

### 23. Assets under management

The Bank holds the trust accounts it manages in memorandum accounts. The total of net managed trusts amounts to B/.3,380,105,868 (2015: B/.2,645,405,949), as detailed below:

	2016	2015
Total assets	4,176,679,812	3,534,995,975
Total liabilities	(796,573,944)	(889,590,026)
Total trusts, net	3,380,105,868	2,645,405,949

Trust operations in Panama are regulated by the Superintendency of Banks of Panama in accordance with the established legislation in Law No.1 of January 5, 1984.

The Bank provides custody securities services for customers through third parties. At December 31, 2016, the values of all assets under administration were approximately B/.1,271,007,164 (2015: B/.548,441,728).

### 24. Fair value of financial instruments

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

## **24.1. Valuation models**

The Bank establishes a fair value hierarchy that classifies into three levels the input data of the valuation techniques used to measure the fair value:

- Level 1: Quoted prices (unadjusted) in active markets for assets or liabilities identical to those the Bank may access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This category includes: quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other valuation techniques in which all significant inputs are directly or indirectly observable in a market.
- Level 3: This category includes all assets or liabilities for which the valuation technique includes inputs not based on observable market 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.

Financial assets y liabilities recorded at fair value in the statement of financial position of the Bank, include mainly derivatives, debt and equity securities classified at fair value through profit or loss and at fair value with changes in comprehensive income, respectively.

### Debt securities:

Valuation techniques include net present value and discounted cash flow models, compared with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk and benchmark free interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices, and volatilities and correlations from expected prices.

### Participative securities:

Valuation techniques include such methodologies as:

- Linear regression, which allows us to find a company value that includes not only the company's indicators, but also its relative performance against the companies in the sample.
- Comparable sample, through which the multiple of the sample of the Equity Value /Book Value is found. This value is adjusted to the entity according to the profitability that this company has regarding the expected profitability for a similar company.
- In the case of the fund, the market value of the fund is used revealed by the consolidated statement of changes in equity.

### Derivatives:

Derivatives entered into by the Bank are forward contracts and OTC negotiated swaps and as such are valued using internal valuation techniques since there are no quoted prices for such instruments. For OTC derivatives, transactions in liquid markets are valued using industry standard valuation models. To the extent applicable, these models project future cash flows and discount future quantities by bringing them to present value using observable market-based inputs that include interest rate curves, foreign currency exchange rates, and forward and spot prices for the currencies.

In addition, given that the Bank has derivative financial instruments, a methodology of adjustment for the counterparty credit risk (credit value adjustment) is applied by which the Bank creates a provision against possible default from the counterparty or due to the credit risk of the Bank (debit value adjustment).

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date in current market conditions.

The decision of whether a market is considered active may include, but is not limited to, consideration of factors such as the magnitude and frequency of trading activity, availability, and price and volume of the deals and transactions. In markets that are not active, the guarantee of getting the price of the transaction to provide evidence of fair value adjustments or determining the transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

An instrument is classified as fully valued using unobservable variables (i.e., Level 3) if in the opinion of Administration, a significant part of the fair value of the instrument and/or initial gain (“the gain or loss on day 1”) is driven by non-observable variables.

“Unobservable” this means that there is little or no current market data available to determine what would be the price of a transaction. In general, this does not mean that there is no market data available in which to base the determination of a reasonable value (price data may, for example, be used).

Furthermore, in some cases, most of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to the observable variables. Consequently, the impact of uncertainty in the determination of the unobservable variables is restricted to the uncertainty about the overall fair value of the financial instruments being measured.

The fair value of a portfolio of financial instruments traded in an active market is calculated as the product of the number of units multiplied by their trading price.

For all the rest of financial instruments whose fair value calculation uses other valuation techniques, the following is considered: when market prices are unavailable, the Bank incorporates certain assumptions that it believes would be conducted by a market participant to establish fair value. When the Bank considers that there are additional considerations not included in the valuation model, adjustments can be made.

The lack of liquidity and lack of activity in the market for asset-backed securities has resulted in less observable data available.

#### **24.2. Valuation framework**

The Bank has a established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of the platform services (“Front Office”), and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

These specific controls include:

- Verification of observable prices through the challenge process.
- A review process and approval of valuation methodologies by the corresponding agency.
- Analysis and investigation of significant movements in daily valuation.
- Analysis of the impairment.
- Assessment and sensitivity of Level 3 instruments.
- Verification of the investments' valuation, and the risk administration area reports the valuation results of the portfolio.

### 24.3. Financial instruments measured at fair value – fair value levels

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

	2016			
	Total	Measurement at fair value		
		Level 1	Level 2	
Securities at fair value with changes in profit or loss:				
Corporate bonds	31,993,996	27,904,654	-	4,089,342
Bonds from the Republic of Mexico	57,341,712	57,341,712	-	-
Bonds from the United States of America	11,764,258	11,764,258	-	-
Bonds from the Republic of Panama	10,302,089	2,033,866	8,268,223	-
Bonds from the Republic of Costa Rica	9,171,982	2,928,850	6,243,132	-
Derivative asset instruments	7,670,868	-	3,334,945	4,335,923
Securities available for sale:				
Share capital	27,901,917	-	-	27,901,917
Bonds from the Republic of Mexico	3,300,579	3,300,579	-	-
Bonds from the Republic of Colombia	42,483,944	42,483,944	-	-
Bonds from the United States of America	94,865,952	94,865,952	-	-
Bonds from the Republic of Panama	262,629,218	8,782,133	253,847,085	-
Certificates of Participation (CERPAN)	75,741,614	-	75,741,614	-
Total	<u>635,168,129</u>	<u>251,405,948</u>	<u>347,434,999</u>	<u>36,327,182</u>
Derivative liability instruments	<u>(6,488,118)</u>	<u>-</u>	<u>(5,011,226)</u>	<u>(1,476,892)</u>
	2015			
	Total	Measurement at fair value		Level 3
		Level 1	Level 2	
Securities at fair value with changes in profit or loss:				
Corporate bonds	32,848,566	17,736,322	9,781,244	5,331,000
Bonds from the Republic of Mexico	115,695,268	115,695,268	-	-
Bonds from the United States of America	7,928,247	7,928,247	-	-
Bonds from the Republic of Panama	15,856,701	-	15,856,701	-
Bonds from the Republic of Costa Rica	26,306,278	-	26,306,278	-
Derivative asset instruments	5,242,236	-	5,242,236	-
Securities available for sale:				
Share capital	7,911,359	-	-	7,911,359
Bonds from the Republic of Mexico	36,490,250	36,490,250	-	-
Bonds from the Republic of Colombia	44,461,374	44,461,374	-	-
Bonds from the United States of America	128,418,671	128,418,671	-	-
Bonds from the Republic of Panama	272,392,892	-	272,392,892	-
Certificates of Participation (CERPAN)	83,345,030	-	83,345,030	-
Total	<u>776,896,872</u>	<u>350,730,132</u>	<u>412,924,381</u>	<u>13,242,359</u>
Derivative liability instruments	<u>(5,176,608)</u>	<u>-</u>	<u>(5,176,608)</u>	<u>-</u>

Administration uses the following valuation techniques for Level 2 financial instruments:

<i>Financial instrument</i>	<i>Valuation technique</i>
Debt instrument – government, multilateral financial and corporate institutions	The price is taken from the main supplier hired by the Bank, and the liquidity of the bond is evaluated.
Certificates of Participation (CERPAN)	CERPAN's quoted prices published weekly by Sistema de Ahorro y Capitalización de Pensiones de los Servidores Públicos multiplied by the number of quota of each CERPAN.
Derivative instruments - swaps	Cash flow model between fixed and variable rates using their respective yield curves price of our provider selected by the Bank.
Derivative instruments – forward purchase/sale of currencies	Discounted cash flow model using market data to construct curves or implicit discount rates for each currency, the price provider selected by the Bank.

#### **24.4. Measurement at fair value Level 3**

The table below shows a reconciliation of the opening and closing balance of the financial instruments measured at fair value over a recurrent basis classified on Level 3:

	<b>2016</b>			
	<b>Share capital</b>	<b>Corporate bonds</b>	<b>Derivatives</b>	<b>Total</b>
Balance at beginning of the year	7,911,359	5,331,000	-	13,242,359
Total gains(losses):				
In the consolidated statement of profit or loss	-	(64,459)	-	(64,459)
In the consolidated statement of comprehensive income	13,962,258	-	-	13,962,258
Transfer of shares of cost at fair value	6,056,402	-	-	6,056,402
Transfer of balance at market value of Level 2	-	-	2,859,031	2,859,031
Purchases	-	7,798,649	-	7,798,649
Settlements and others	(28,102)	(9,116,849)	-	(9,144,951)
Premiums and discounts	-	155,607	-	155,607
Accrued interest receivable	-	(14,606)	-	(14,606)
Balance at end of year	<u>27,901,917</u>	<u>4,089,342</u>	<u>2,859,031</u>	<u>34,850,290</u>

	<b>Share capital</b>	<b>2015 Corporate bonds</b>	<b>Total</b>
Balance at beginning of the year	10,179,022	8,002,842	18,181,864
Total gains(losses):			
In the consolidated statement of profit or loss	-	(55,040)	(55,040)
In the consolidated statement of comprehensive income	(2,087,831)	(140,000)	(2,227,831)
Purchases	-	30,426,813	30,426,813
Settlements and others	(179,832)	(28,871,905)	(29,051,737)
Transfer to securities held to maturity	-	(7,078,361)	(7,078,361)
Level 2 transfers	-	2,922,417	2,922,417
Premiums and discounts	-	106,574	106,574
Accrued interest receivable	-	17,660	17,660
Balance at end of year	<u>7,911,359</u>	<u>5,331,000</u>	<u>13,242,359</u>

At December 31, 2015, there were transfers from Level 2 to Level 3 of B/2,922,417 of the fair value hierarchy on securities available for sale on a recurring basis, because there is no sufficient market information, which represents non-observable data for fair value.

Total gains for the year presented in the consolidated statement of profit or loss and consolidated statement of comprehensive income are detailed below:

	<b>2016</b>			
	<b>Share capital</b>	<b>Corporate Bonds</b>	<b>Derivatives</b>	<b>Total</b>
Total gains included in the consolidated statement of profit or loss:				
Gains in financial instruments, net	-	54,450	(1,068,478)	(1,014,028)
Total gains recognized in the consolidated statement of comprehensive income:				
Net changes on valuation of securities available for sale	<u>13,962,260</u>	<u>-</u>	<u>-</u>	<u>13,962,260</u>
	<b>2015</b>			
	<b>Share capital</b>	<b>Corporate bonds</b>	<b>Total</b>	
Total gains included in the consolidated statement of profit or loss:	-	1,499	1,499	
Total gains recognized in the consolidated statement of comprehensive income:				
Net changes on valuation of securities available for sale	<u>(2,087,831)</u>	<u>(140,000)</u>	<u>(2,227,831)</u>	

The table below shows information about significant unobservable variables used at December 31, 2016, in measuring the financial instruments categorized as Level 3 in the fair value:

Type of instrument	Valuation technique	Significant unobservable entry data	Criteria or range of estimation	Fair value – Sensitivity measure to inputs
Corporate bonds	Valuation of discounted cash flows.	Iterative calculation for obtaining the margin taking into account the market price and the reference curve or the theoretical price and the reference curve.	Margins between 0.6%- 1.8% in favorable scenarios and margins between 2.3% and 1.1% in unfavorable scenarios.	Increase or decrease risk margin in basis points applied to a benchmark yield curve, resulting in a lower and higher market value, respectively.
Variable income securities	A comparable sample is taken, and the multiple of the sample equity value/ carrying value. This value is adjusted to the entity according to the profitability that the company has regarding the expected return for a company of these characteristics located in the country. The resulting value is the equity multiple applied.	Reference price or value of the unobservable share value.	A multiple of the sample of equity value/ carrying value. This value is adjusted to the entity according to the profitability that this company has regarding the expected return for a company of these characteristics located in the country. The resulting value is the equity multiple applied.	% of lower or higher variation on reference values.
	The market value of the fund that reveals the Capital Statement is used.	Reference price or value of the unobservable share value.	The market value of the fund that reveals the Capital Statement is used.	% of lower or higher variation on reference values.

For sensitivity estimates at the Level 3 fair value on debt instruments whose trading lacks liquidity and availability of objective information, the Bank considers the use of the methodology of discounted future cash flows based on inputs such as yield curves plus a margin which is the result of the iterative calculation taking into account the market price and the reference curve or the theoretical price and the reference curve.

Other instruments such as shares or capital instruments classified in Level 3 are valued under the following method: a comparable sample is taken, in order to obtain its multiples in terms of equity/book value. This value is set to the entity according to the profitability that the company has regarding the expected return for a company of these characteristics located in the country. The resulting value is the multiple of equity applied. In the case of fund Adara the market value of the fund that reveals the state capital is used.

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used for reasonably possible alternative assumptions would have the following effects:

	<b>2016</b>			
	<b>Effect in gains (loss)</b>		<b>Effect in other comprehensive income</b>	
	<b>favorable</b>	<b>(unfavorable)</b>	<b>favorable</b>	<b>(unfavorable)</b>
Fixed income	93,079	(24,705)	-	-
Variable income	-	-	1,395,096	(2,790,192)
	<b>2015</b>			
	<b>Effect in gains (loss)</b>		<b>Effect in other comprehensive income</b>	
	<b>favorable</b>	<b>(unfavorable)</b>	<b>favorable</b>	<b>(unfavorable)</b>
Fixed income	19,519	(12,391)	-	-
Variable income	-	-	493,554	(791,134)

The favorable and unfavorable effects of using reasonably possible alternative assumptions for the valuation of debt securities have been assigned to the model with respect to the use of unobservable inputs based on a percentage valuation of the price obtained or margin changes according to the valuation technique. For equity instruments with reference price, but lacking liquidity, the Bank sees 5% favorable and 10% unfavorable percentage change on its market value.

## 24.5. Financial instruments not measured at fair value

The following table analyzes the fair value of the financial instruments that are not measured at fair value and classified by level:

	2016			Fair value	Carrying value
	Level 1	Level 2	Level 3		
<b>Assets</b>					
Cash and cash effects	-	203,946,735	-	203,946,735	203,946,735
Demand deposits	-	364,594,966	-	364,594,966	364,594,966
Time deposits	-	-	376,632,850	376,632,850	376,901,021
Investments in securities	36,224,438	-	71,847,805	108,072,243	107,496,176
Loans	-	-	7,153,137,061	7,153,137,061	7,143,749,112
<b>Total assets</b>	<b>36,224,438</b>	<b>568,541,701</b>	<b>7,601,617,716</b>	<b>8,206,383,855</b>	<b>8,196,688,010</b>
<b>Liabilities</b>					
Demand deposits	-	1,338,427,040	-	1,338,427,040	1,338,427,040
Savings deposits	-	1,593,798,340	-	1,593,798,340	1,593,803,082
Time deposits	-	-	3,427,350,778	3,427,350,778	3,389,072,177
Interbank deposits	-	-	401,205,300	401,205,300	399,210,179
Borrowings	-	-	1,184,465,383	1,184,465,383	1,184,771,659
<b>Total liabilities</b>	<b>-</b>	<b>2,932,225,380</b>	<b>5,013,021,461</b>	<b>7,945,246,841</b>	<b>7,905,284,137</b>
<b>2015</b>					
	Level 1	Level 2	Level 3	Fair value	Carrying value
<b>Assets</b>					
Cash and cash effects	-	224,237,933	-	224,237,933	224,237,933
Demand deposits	-	344,962,147	-	344,962,147	344,962,147
Time deposits	-	-	378,263,086	378,263,086	377,688,125
Investments in securities	35,015,400	-	56,724,630	91,740,030	92,485,115
Loans	-	-	6,715,902,420	6,715,902,420	6,754,327,046
<b>Total assets</b>	<b>35,015,400</b>	<b>569,200,080</b>	<b>7,150,890,136</b>	<b>7,755,105,616</b>	<b>7,793,700,366</b>
<b>Liabilities</b>					
Demand deposits	-	1,460,286,295	-	1,460,286,295	1,460,286,295
Savings deposits	-	1,695,067,154	-	1,695,067,154	1,695,069,850
Time deposits	-	-	3,081,343,213	3,081,343,213	3,096,219,430
Interbank deposits	-	-	352,260,420	352,260,420	352,620,368
Borrowings	-	-	1,082,975,312	1,082,975,312	1,093,139,661
<b>Total liabilities</b>	<b>-</b>	<b>3,155,353,449</b>	<b>4,516,578,945</b>	<b>7,671,932,394</b>	<b>7,697,335,604</b>

The table below describes the valuation techniques and input data used on assets and liabilities not measured at fair value classified within Levels 2 and 3 of the fair value hierarchy:

Financial instrument	Valuation technique and entry data used
Cash, demand and time deposits, customers demand and saving deposits	The carrying value of these financial instruments are used due to their short-term maturity.
Loans, customers time deposits, borrowings	Represents the estimated discounted future cash flows using adequate market curves. Fair value represents the best estimate based on methodologies internally developed.

The following table summarizes the carrying value and estimated fair value of significant financial assets and liabilities:

2016	Loans	Securities at fair value with changes in profit or loss	Securities available for sale	Securities held to maturity	Others at amortized cost	Carrying value	Fair value
<b>Assets</b>							
Cash and cash effects	-	-	-	-	203,946,735	203,946,735	203,946,735
Demand deposits	-	-	-	-	364,594,966	364,594,966	364,594,966
Time deposits	-	-	-	-	376,901,021	376,901,021	376,632,850
Investments in securities	-	120,574,037	507,264,584	107,496,176	-	735,334,797	731,846,902
Loans	7,143,749,112	-	-	-	-	7,143,749,112	7,153,137,061
<b>Total</b>	<u>7,143,749,112</u>	<u>120,574,037</u>	<u>507,264,584</u>	<u>107,496,176</u>	<u>945,442,722</u>	<u>8,824,526,631</u>	<u>8,830,158,514</u>
<b>Liabilities</b>							
Demand deposits	-	-	-	-	1,338,427,040	1,338,427,040	1,338,427,040
Savings deposits	-	-	-	-	1,593,803,082	1,593,803,082	1,593,798,340
Time deposits	-	-	-	-	3,389,072,177	3,389,072,177	3,427,350,778
Interbank deposits	-	-	-	-	399,210,179	399,210,179	401,205,300
Borrowings	-	-	-	-	1,184,771,659	1,184,771,659	1,184,465,383
<b>Total</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,905,284,137</u>	<u>7,905,284,137</u>	<u>7,945,246,841</u>

2015	Securities at fair value with changes in profit or loss		Securities available for sale	Securities held to maturity	Others at amortized cost	Carrying value	Fair value
	Loans						
<b>Assets</b>							
Cash and cash effects	-	-	-	-	224,237,933	224,237,933	224,237,933
Demand deposits	-	-	-	-	344,962,147	344,962,147	344,962,147
Time deposits	-	-	-	-	377,688,125	377,688,125	378,263,086
Investments in securities	-	198,635,060	579,342,338	92,485,115	-	870,462,513	863,982,404
Loans	6,754,327,046	-	-	-	-	6,754,327,046	6,715,902,420
<b>Total</b>	<b>6,754,327,046</b>	<b>198,635,060</b>	<b>579,342,338</b>	<b>92,485,115</b>	<b>946,888,205</b>	<b>8,571,677,764</b>	<b>8,527,347,990</b>
<b>Liabilities</b>							
Demand deposits	-	-	-	-	1,460,286,295	1,460,286,295	1,460,286,295
Savings deposits	-	-	-	-	1,695,069,850	1,695,069,850	1,695,067,154
Time deposits	-	-	-	-	3,096,219,430	3,096,219,430	3,081,343,213
Interbank deposits	-	-	-	-	352,620,368	352,620,368	352,260,420
Borrowings	-	-	-	-	1,093,139,661	1,093,139,661	1,082,975,312
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,697,335,604</b>	<b>7,697,335,604</b>	<b>7,671,932,394</b>

## 25. Assets held for sale

A detail of the assets held for sale is presented below:

2016	Immovable property	Movable property	Total
	Balance at beginning of the year	4,816,372	565,709
Additions	3,555,065	1,071,520	4,626,585
Sales and discards	(2,461,869)	(771,360)	(3,233,229)
Reclassification to other assets	(3,684,891)	-	(3,684,891)
Reclassification of properties, furniture, equipment and improvements and net of depreciation (Note 13)	3,512,221	-	3,512,221
Impairment	(28,828)	(78,711)	(107,539)
At end of year	<u>5,708,070</u>	<u>787,158</u>	<u>6,495,228</u>
2015	Immovable property	Movable property	Total
Balance at beginning of the year	8,127,242	408,765	8,536,007
Additions	1,949,556	956,024	2,905,580
Sales and discards	(2,940,610)	(774,509)	(3,715,119)
Reclassification to other assets	(1,921,542)	-	(1,921,542)
Impairment	(398,274)	(24,571)	(422,845)
At end of year	<u>4,816,372</u>	<u>565,709</u>	<u>5,382,081</u>

At December 31, 2016, the Bank holds an equity reserve for foreclosed assets according to a regulatory requirement of B/.2,244,067 (2015: B/.3,358,455).

Through communication to the regulators, the approval of the sale process of Seguros Banistmo S.A. to Suramericana, S.A. was reported. Through Resolution OAL-91 of May 8, 2015, the Superintendency of Insurance of Panama approved the change of the ownership of one hundred percent (100%) of the issued and outstanding shares of Seguros Banistmo S.A. to Suramericana, S. A. On August 28, 2015, the sale of holdings of the subsidiary's shares was formally completed.

#### Results of discontinued operation

For the period ended August 28, 2015, Seguros Banistmo S.A. presented the following income balances, which were classified as discontinued operations in the consolidated statement of profit or loss:

	<b>August 28, 2015</b>
Interest and commission income:	
Interest on:	
Loans	17,790
Deposits in banks	45,399
Securities	2,015,284
<b>Total interest and commission income</b>	<u>2,078,473</u>
Income from banking services and others:	
Net profit in securities and derivatives	839,564
Net income from insurance business operations	8,631,108
<b>Total income from banking services and others, net</b>	<u>9,470,672</u>
General and administrative expenses:	
Salaries and other employee costs	2,882,158
Depreciation	34,974
Amortization of software	54,665
<b>Total general and administrative expenses</b>	<u>2,971,797</u>
<b>Net profit before income tax</b>	<u>8,577,348</u>
Income tax	(3,060,927)
Deferred income tax	(72,776)
<b>Profit from activities in discontinued operations net of income tax</b>	<u>5,443,645</u>
Profit in sale of subsidiary, before disposition of goodwill	24,831,444
	<u>30,275,089</u>
Goodwill disposition	(5,546,660)
<b>Net profit of period coming from discontinued activities</b>	<u>24,728,429</u>

Below are presented the net assets and liabilities of the subsidiary at August 28, 2015:

	<b>August 28, 2015</b>
Cash, cash effects and deposits	(24,661,989)
Investments in securities	(69,946,922)
Loans, nets	(216,975)
Properties, furniture, equipment and improvements, net of depreciation	(46,085)
Accounts receivable and other assets	(31,418,333)
Other liabilities	57,271,449
Assets y liabilities, net	<u>(69,018,855)</u>
Cash received from sale	96,495,801
Cash delivered at the disposal of subsidiaries	<u>(24,661,989)</u>
Cash received, net	<u>71,833,812</u>

	<b>August 28, 2015</b>
Operating activities	12,586,864
Investing activities	21,271,970
Financing activities	<u>(50,564,888)</u>
	<u>(16,706,054)</u>

**26. Balance of acquired subsidiary**

Below are presented the net assets and liabilities of Valores Banistmo S. A. at July 6, 2016:

	<b>July 6, 2016</b>
Cash, cash effects and deposits	6,435,999
Investments available for sale	75,000
Investments at fair value through profit or loss	11,000,771
Furniture and equipment, net of accrued depreciation	117,134
Accounts receivable and other assets	428,669
Other liabilities	<u>(520,270)</u>
Assets and liabilities, net	<u>17,537,303</u>
Cash paid for acquisition of subsidiary	<u>(17,537,303)</u>
Less: cash acquired	6,435,999
Cash flows from acquisition, net of cash acquired	<u>(11,101,304)</u>

## **27. Main laws and applicable regulations**

The main laws and applicable regulations in the Republic of Panama are detailed below:

### **27.1. Banking law**

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendency of Banks of the Republic of Panama, according to the law established by Executive Decree No.52 of April 30, 2008, adopting the only text of Decree Law No.9 of February 26, 1998, as amended by Decree Law No.2 of February 22, 2008, whereby the banking system in Panama is established and the Superintendency of Banks and the rules governing it is created.

For purposes of compliance with prudential norms issued by the Superintendency of Banks of Panama, the Bank shall prepare an estimate of the credit reserve based on regulatory guidelines. If the regulatory calculation is greater than the respective calculation determined under IFRS, an excess reserve is recognized in regulatory equity reserves.

### **27.2. Trust law**

Trust operations in Panama are regulated by the Superintendency of Banks of Panama in accordance with the legislation established in Law No.1 of January 5, 1984.

### **27.3. Securities law**

Brokerage operations in Panama are regulated by the Superintendency of Securities Market according to the rules established by Decree Law No.1 of July 8, 1999, amended by Law No.67 September 1, 2011.

The operations of Brokerage Houses are in the adequacy process to Agreement 4-2011, amended in certain provisions by Agreement 8-2013, established by the Superintendency of the Securities Market, which indicate that they are required to meet the capital adequacy rules and their modalities.

### **27.4. Regulatory standards**

Regulatory standards issued by the Superintendency of Banks which started their operations during 2014:

- Board of Directors' General Resolution SBP-GJD-0003-2013 was issued on July 9, 2013 by the Superintendency of Banks of Panama whereby the accounting treatment of differences between prudential regulations and the International Financial Reporting Standards (IFRS) are established. This General Resolution shall enter into force for accounting periods ending on or after December 31, 2014.
- Agreement No.004-2013 of May 28, 2013 was issued whereby provisions on credit risk administration inherent in credit portfolio and off-balance sheet transactions are established outside the consolidated statement of financial position, including the general classification criteria of credit facilities with the purpose of determining specific provisions and dynamic for the credit risk hedge of the Bank. In addition, this Agreement establishes certain minimum disclosures required in line with IFRS disclosure requirements on managing credit risk.

This Agreement entered into force on September 30, 2014. This Agreement replaces Agreement No. 6-2000 of June 28, 2000 and all its amendments in its entirety, Agreement No. 6-2002 of August 12, 2002 and Article 7 of Agreement No. 2-2003 of March 12, 2003. This Agreement entered into force on September 30, 2014.

Specific provisions:

Agreement No.4-2013 states that specific provisions are originated when an objective and concrete evidence of impairment is given. These provisions must be established for credit facilities classified into the following risk categories: special mention, substandard, doubtful, or unrecoverable, for individual credit facilities as well as to a group of credit facilities.

At December 31, 2014, as a minimum, banks must compute and maintain at all times the amount of specific provision determined using the methodology specified in this Agreement, which takes into consideration the balance owed on each credit facility, classified on one of the categories subject to provision previously mentioned in the above paragraph; the present value of each available warrant mitigating the risk, as established by type of guaranty in this Agreement; and a weighted average table applied to the net balance exposed to loss on such credit facilities.

Article 34 of the Agreement provides that all claims must be classified into the following five (5) categories according to their risk of default and loan conditions, and establishes the minimum provision rate for each classification: Standard 0%, Special Mention 2%, Substandard 15%, Doubtful 50%, and 100% Unrecoverable.

In the case that an excess on the specific provision computed under this Agreement vs. the provision calculated under the IFRS exists, this excess is accounted for in a regulatory reserve under equity as an increase or decrease allocated to or from retained earnings. The balance of regulatory reserve will not be considered as capital funds for purposes of computing certain index or prudential ratios mentioned in the Agreement.

The table below shows the balances of delinquent loans and overdue for major categories and amounts of specific provisions for each portfolio as required by Article 29 of Agreement No. 004-2013:

Classification	2016		2015	
	Portfolio	Reserves	Portfolio	Reserves
Normal	6,394,583,137	-	6,322,367,198	-
Special mention	393,804,807	28,547,517	151,499,164	18,160,905
Subnormal	80,846,525	13,795,888	49,615,447	10,533,414
Doubtful	64,561,265	24,764,761	76,254,717	23,436,294
Unrecoverable	70,213,878	35,198,967	9,277,364	2,818,536
Gross amount	7,004,009,612	102,307,133	6,609,013,890	54,949,149
Total subsidiaries	322,737,275	5,685,737	257,527,073	6,201,677
Subtotal	7,326,746,887	107,992,870	6,866,540,963	61,150,826
Plus:				
Accrued interest receivable	34,055,393	-	27,749,191	-
Less:				
Interest and unearned discounted commissions	94,928,479	-	73,647,377	-
Total	7,265,873,801	107,992,870	6,820,642,777	61,150,826

An analysis of the effect of differences between the IFRS provision and the provision of Agreement 4-2013 resulting from regulatory provisions is shown below:

	<b>2016</b>	<b>2015</b>
Methodology of provisions under IFRS		
Individual	63,971,145	22,347,878
Collective	58,153,544	43,967,853
Total IFRS provision	<u>122,124,689</u>	<u>66,315,731</u>
Regulatory provisions:		
Specific provision	<u>107,992,870</u>	<u>61,150,826</u>
Difference between specific, regulatory and IFRS provision	<u>14,131,820</u>	<u>5,164,905</u>
Regulatory reserve for loan losses	<u>-</u>	<u>-</u>

Dynamic provision:

Agreement No.004-2013 states that the dynamic provision is a reserve established to meet possible future needs for the creation of specific provisions, which is governed by prudential criteria of their own banking regulation. The dynamic provision is constituted on a quarterly basis taking into account the data of the last day of the quarter.

Agreement No. 003-2016 establishes the rules to determine the assets weighted by credit risk and counterparty risk that must be applied in the Dynamic Provision. This agreement became effective as of the close of the month of September 2016. Agreement No. 003-2016 establishes the rules to determine the assets weighted by risk and counterparty risk that must be applied in the Dynamic Provision. This agreement became effective as of the Closing of the month of September 2016.

The dynamic provision amount is obtained computing the following components:

- Component 1: Is the amount obtained by multiplying the balance of weighted-average assets based on risk, applied only to credit facilities classified under the normal category by the alpha coefficient 1.50%.
- Component 2: Is the amount obtained by multiplying the balance of weighted-average assets based on risk, applied only to credit facilities classified under the normal category, if positive by the beta coefficient 5%. If the variation is negative, the amount is zero.
- Component 3: Is the amount of the variation in the balance of specific provisions in the quarter.

The amount of dynamic provision is the sum of the two components, obtained on bullets 1 and 2 less the third component, with its sign of the amount obtained in bullet 3 has to be added if this last component is negative. The amount of the dynamic provision must comply with the following restrictions:

- It cannot be greater than 2.5% of its weighted average assets based on risk in relation to credit facilities classified under the normal category.
- It cannot be less than 1.25% of its weighted average assets based on risk in relation to credit facilities classified under the normal category.
- It cannot decrease in relation to the amount established in the previous quarter, except that the decrease is attributed to the conversion of specific provisions. The Superintendency of Banks will establish criteria for the aforesaid conversion.

The dynamic provision is an equity item that increases or decreases with allocations to or from retained earnings. The credit balance of this dynamic provision is part of the regulatory capital, but does not replace or offset the capital adequacy requirements established by the Superintendency.

The following table summarizes the balance constituted of the dynamic provision by the Bank and each of the following subsidiaries as at December 31, 2016:

	<b>2016</b>	<b>2015</b>
Banistmo S.A.	84,968,873	84,968,873
Leasing Banistmo S.A.	3,666,471	1,535,789
Financomer, S.A.	4,260,805	2,020,444
	<u>92,896,149</u>	<u>88,525,106</u>

The requirement to establish dynamic provisions is not applicable to microfinance banks, which must maintain an additional provision of 1% on the loan portfolio that has been classified under the normal category following the loan classification methodology that this Agreement has established for these microfinance banks.

Regulatory reserve on loans under equity:

General Resolution SBP-GJD-0003-2013 of the Board of Directors of the Superintendency of Banks of Panama establishes that, in order to present its financial statements in conformity with IFRS, when the Bank identifies differences between the applications of IFRS vs. the prudential standards issued by the Superintendency of Banks, it will continue the following methodology:

- The computations will be made on how the accounting balances will result when applying the IFRS and the prudential standards issued by the Superintendency of Bank and comparing the amounts.
- When the computation made in accordance with IFRS results in a higher reserve or provision for the Bank than the one resulting from the use of prudential regulations, the Bank will account for the IFRS figures.
- When the impact of using prudential standards results in a greater reserve or provision for the Bank, the effect of the IFRS usage shall also be recorded in profit or loss, and the difference between both computations shall be recorded under retained earnings on a regulatory reserve under equity. In the event that the Bank does not have sufficient retained earnings, the difference shall be presented under an accumulated deficit account.
- The regulatory reserve referred to in the previous paragraph, cannot be reversed against retained earnings while there are still differences between the IFRS and prudential standards that originated it.

Foreclosed assets:

Regulatory standards issued by the Superintendency of Insurance and Reinsurance of Panama on equity reserve for foreclosed assets:

From August 2009, the Bank considers reasonable the standard issued by the Superintendency of Banks of Panama, which requires banks to establish a capital reserve for assets available for sale based on Agreement 3-2009. The agreement sets a deadline of sale of the property available-for-sale five (5) years, counted from the date of registration in the Public Registry.

If after this period, the Bank has not sold the immovable property acquired, it must make an independent appraisal of the property to determine whether its value has declined, applied in such a case the provisions of IFRS. The Bank shall create a reserve in the equity account to which the following assignments undistributed profits based on the value of the available for sale will be made: first year, 10%; second year, 20%; third year, 35%; fourth year, 15% and fifth year 10%.

## 28. Non-consolidated structured entities

The following table describes the types of structured entities in which the Bank does not hold an interest, but acts as a sponsor thereof. The Bank is considered as a sponsor of a structured entity when it facilitates its establishment.

Type of structured entity	Nature and purpose	Interest held by the Bank
Separate vehicles - Private trusts	<p>To generate commissions on administration services and collection and payment agent.</p> <p>To guarantee the payments in the concept of principal, interest or any other concepts owe by the Trustor.</p>	None

At December 31, 2016, the Bank does not have any contractual obligation to provide financial support or other assistance to these non-consolidated structured entities.

## 29. Relevant facts

During the period ended December 31, 2016, an economic group with credit exposure with the Bank was added to the OFAC list. The Superintendency of Banks of Panama, through SBP-DR-N-3824-2016 bulletin of June 30, 2016 and SBP-DR-N-4072-2016 of July 13, 2016, expressed the regulatory classification categories to be applied to loans of those debtors included in the OFAC list. In addition, the Bank has made related assessments in accordance to IFRS and classified these loans according to the applicable criteria.

As at December 31, 2016, the Economic Group maintained an exposure in the Bank for B/.204,076,174. The provisions required under IFRS and prudential standards have been incorporated into our books at the close of December 31, 2016, as disclosed in notes 3 and 27 of these consolidated financial statements. In the measurement of individual impairment under IFRS, future recovery flows were estimated based on assumptions of the settlement value from the existing guarantees. This estimate was made with the relevant information available at the date of the consolidated statement of financial position. Current results may vary from these estimates due to new information that may be obtained in the future.

### 30. Correction to the figures previously reported in the consolidated statement of cash flows

Subsequent to the issuance of the consolidated financial statements at December 31, 2015, Administration identified some events in the cash flows that required to be modified retrospectively. The most important changes were: (a) the reclassification of outflows for investments held to maturity totaling B/.92,000,000 from operating activities to investing activities and (b) the calculation on the increase in time deposits with original maturity over 3 months, which at December 31, 2015 had been calculated for B/.34,550,819 and should have been B/.71,747,493 and at December 31, 2014, had been counted for B/.118,651,395 and should have been B/.78,412,943.

Cash flow after its modification is shown below:

<b>2015</b>	<b>As previously reported</b>	<b>Adjustments</b>	<b>Restructured</b>
<b>Operating activities</b>			
Net cash used in operating activities	(78,136,132)	41,003,800	(37,132,332)
<b>Investing activities</b>			
Net cash used in investing activities	(76,006,530)	(89,160,956)	(165,167,486)
<b>Financing activities</b>			
Net cash provided by financing activities	49,011,803	-	49,011,803
Decrease in cash and cash equivalents	(105,130,859)	(48,157,156)	(153,288,015)
Cash and cash equivalents at beginning of period	1,007,007,820	(40,238,452)	966,769,368
Cash and cash equivalents at end of year	901,876,961	(88,395,608)	813,481,353

### 31. Approval of consolidated financial statements

The consolidated financial statements for the year ended December 31, 2016 were approved by Administration and authorized for issuance on February 7, 2017.

# **Banistmo, S. A. and Subsidiaries**

**Report and Consolidated Financial Statements  
December 31, 2015**

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## **FREE ENGLISH LANGUAGE TRANSLATION OF SPANISH VERSION**

### **Independent Auditors' Report**

To the Board of Directors and Stockholder of  
Banistmo, S. A.

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

#### **Management's Responsibility for the Consolidated Financial Statements**

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

#### **Auditors' Responsibility**

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

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



To the Board of Directors and Stockholder of  
Banistmo, S. A.  
Page 2

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

**Opinion**

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

*PricewaterhouseCoopers (signed)*

February 20, 2016  
Panama, Republic of Panama

**Banistmo, S. A. and Subsidiaries**

**Consolidated Statement of Financial Position**

**December 31, 2015**

**(Stated in Balboas)**

	Note	2015	2014		Note	2015	2014
<b>Assets</b>				<b>Liabilities and Equity</b>			
Cash and cash equivalents	12	224,237,933	122,988,552	<b>Liabilities:</b>			
Deposits in financial institutions:				Customers' deposits:			
Demand deposits - local		49,441,611	52,110,573	Demand deposits - local			
Demand deposits - foreign		295,520,536	541,502,011	Demand deposits - foreign			
Time deposits - local		182,401,124	162,190,154	Savings			
Time deposits - foreign		194,271,881	137,661,835	Time deposits - local			
Accrued interest receivable		1,015,120	410,631	Time deposits - foreign			
Total deposits in financial institutions		722,650,272	893,875,204	Interbank deposits			
Total cash, cash equivalents and deposits	4,12,27	946,888,205	1,016,863,756	Local			
Investments in securities	4,13,27			Foreign			
Securities at fair value through profit or loss		197,863,212	214,600,212	Accrued interest payable			
Securities available-for-sale		574,379,162	541,029,722	Total customers and interbank deposits			
Securities held to maturity		92,000,000	-	Borrowings			
Accrued interest receivable		6,220,139	4,888,301	Accrued interest payable			
		870,462,513	760,518,235	Total liabilities			
Loans	4,14,25,27	6,866,540,963	6,309,998,051	Equity			
Less:				Common stocks			
Allowance for loan losses		66,315,731	62,475,656	Preferred stocks			
Unearned and discounted interest and commissions		73,647,377	62,247,144	Capital reserve			
		6,726,577,855	6,185,275,251	Equity dynamic reserve			
Accrued interest receivable		27,749,191	23,512,296	Regulatory reserve for foreclosed assets			
Loans, net		6,754,327,046	6,208,787,547	Regulatory reserve for insurance business			
				Reserve for valuation on investment securities			
Held-for-sale financial assets	28	5,382,081	8,536,007	Cash flow hedges			
Property, furniture, equipment and improvements, net of accumulated depreciation and amortization	16	94,647,135	71,619,109	Actuarial valuation on defined benefits			
Customers' liabilities under acceptances		35,100,962	16,315,517	Complementary tax			
Goodwill and other intangible assets, net	17	76,542,610	88,361,521	Retained earnings (accumulated deficit)			
Various debtors - insurance business		-	23,935,837	Total equity			
Deferred income taxes	10	19,285,439	17,390,493	Commitments and contingencies			
Other assets	18	118,288,527	99,891,749	Total liabilities and equity			
Total assets		8,920,924,518	8,312,219,771				

**Banistmo, S. A. and Subsidiaries**

**Consolidated Statement of Income  
For the year ended December 31, 2015  
(Stated in Balboas)**

	Note 28	2015	2014 (Restated)
<b>Continuing operations</b>			
Interest and commission income:			
Interest on:			
Loans		381,959,402	355,945,488
Deposits with banks		4,519,081	3,858,253
Securities		23,667,308	23,657,963
Loan commissions		2,623,639	2,204,097
Total interest and commission income	25	<u>412,769,430</u>	<u>385,665,801</u>
Interest expense:			
Deposits		113,719,802	107,544,631
Financing		21,076,708	21,725,223
Total interest expense	25	<u>134,796,510</u>	<u>129,269,854</u>
Net interest and commission income, before provisions		277,972,920	256,395,947
<b>Provision for impairment of financial assets</b>			
Loans	14	39,961,527	38,881,305
Investments	13	399,643	-
Net interest and commission income, after provisions		<u>237,611,750</u>	<u>217,514,642</u>
Income (expense) from banking and other services:			
Fees and other commissions	7	80,638,113	79,338,932
Net loss on securities and derivatives	8	(1,887,854)	(2,081,985)
Other provisions	9	(152,815)	583,050
Commission expense	9	(36,472,468)	(34,827,014)
Net other income	7	4,677,219	7,461,448
Total income from banking and other services, net		<u>46,802,195</u>	<u>50,474,431</u>
General and administrative expenses:			
Salaries and other employee expenses	9,25	78,138,842	79,724,097
Rent		14,290,407	9,302,728
Promotion and advertisements		4,762,156	4,225,553
Fees and professional services		17,188,493	21,125,176
Depreciation and amortization	16,17,18	18,004,285	18,482,388
Other expenses	9	67,006,658	57,367,630
Total general and administrative expenses		<u>199,390,841</u>	<u>190,227,572</u>
Income before income tax and discontinued operations		<u>85,023,104</u>	<u>77,761,501</u>
Income tax	10	15,026,508	16,474,392
Equity participation in associates		-	49,363
Profit for the year from continuing operations		69,996,596	61,336,472
<b>Discontinued operations</b>			
Profit for the year from discontinued operations, net of income tax	28	<u>24,728,429</u>	<u>15,478,194</u>
Net income for the year	11	<u>94,725,025</u>	<u>76,814,666</u>

**Banistmo, S. A. and Subsidiaries****Consolidated Statement of Comprehensive Income  
For the year ended December 31, 2015  
(Stated in Balboas)**

	Note	2015	2014 (Restated)
Net income for the year		<u>94,725,025</u>	<u>76,814,666</u>
<b>Other comprehensive income:</b>			
Items that are or may be reclassified to consolidated income statement:			
Reclassification of securities held-for-sale related to non-current assets held-for-sale	13	(2,109,762)	-
Cash flow hedges:			
Effective portion of changes in fair value	24	3,430,634	2,975,930
Reserve for valuation on investment securities:			
Net changes on valuation of securities available-for-sale	13	(4,742,457)	3,405,539
Net gain on securities available-for-sale transferred to profit or loss	13	(2,262,916)	(2,747,829)
Items not reclassified to the consolidated income statement:			
Actuarial valuation of defined benefits		<u>137,247</u>	<u>(738,259)</u>
Total other comprehensive (loss) income, net		<u>(5,547,254)</u>	<u>2,895,381</u>
Total comprehensive income for the year		<u><u>89,177,771</u></u>	<u><u>79,710,047</u></u>

**Banistmo, S. A. and Subsidiaries**

**Consolidated Statement of Changes in Equity  
For the year ended December 31, 2015  
(Stated in Balboas)**

	Common shares	Preferred shares	Capital reserve	Equity dynamic reserve	Regulatory reserve for foreclosed properties	Regulatory reserve for insurance business	Valuation reserve for investments securities	Cash flows hedging	Actuarial valuation of defined benefits	Complementary tax	Retained earnings (accumulated deficit)	Total
<b>Balance as of December 31, 2013</b>	622,491,973	147,151,800	2,500,000	-	3,816,190	36,312,856	15,567,510	(7,200,065)	-	(2,860,893)	(6,359,719)	811,419,652
Comprehensive Income:												
Net income	-	-	-	-	-	-	-	-	-	-	76,814,666	76,814,666
Other comprehensive income:												
Actuarial valuation of defined benefits	-	-	-	-	-	-	-	-	(738,259)	-	-	(738,259)
Cash flows hedging	-	-	-	-	-	-	-	2,975,930	-	-	-	2,975,930
Effective portion of changes in fair value	-	-	-	-	-	-	-	-	-	-	-	-
Reserve for valuation of investments in securities:												
Net changes in valuation of securities available-for-sale	-	-	-	-	-	-	3,405,539	-	-	-	-	3,405,539
Net gain on securities available-for-sale transferred to profit and loss	-	-	-	-	-	-	(2,747,829)	-	-	-	-	(2,747,829)
Total other comprehensive income	-	-	-	-	-	-	657,710	2,975,930	(738,259)	-	-	2,895,381
Total comprehensive income	-	-	-	-	-	-	657,710	2,975,930	(738,259)	-	76,814,666	79,710,047
Other equity transactions:												
Regulatory reserve for foreclosed assets	-	-	-	-	(723,604)	-	-	-	-	-	723,604	-
Regulatory reserve for insurance business	-	-	-	-	-	864,315	-	-	-	-	(864,315)	-
Dynamic reserve	-	-	-	73,717,784	-	-	-	-	-	-	(73,717,784)	-
Total of other equity transactions	-	-	-	73,717,784	(723,604)	864,315	-	-	-	-	(73,858,495)	-
Contributions and distributions to shareholders:												
Dividends paid - preferred shares	-	-	-	-	-	-	-	-	-	-	(11,604,094)	(11,604,094)
Complementary tax	-	-	-	-	-	-	-	-	-	(1,742,398)	-	(1,742,398)
Total contributions and distributions to shareholders	-	-	-	-	-	-	-	-	-	(1,742,398)	(11,604,094)	(13,346,492)
<b>Balance as of December 31, 2014</b>	622,491,973	147,151,800	2,500,000	73,717,784	3,092,586	37,177,171	16,225,220	(4,224,135)	(738,259)	(4,603,291)	(15,007,642)	877,783,207
Comprehensive Income:												
Net income	-	-	-	-	-	-	-	-	-	-	94,725,025	94,725,025
Other comprehensive income:												
Actuarial valuation of defined benefits	-	-	-	-	-	-	-	-	137,247	-	-	137,247
Cash flows hedging	-	-	-	-	-	-	-	3,430,634	-	-	-	3,430,634
Effective portion of changes in fair value	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of valuation of securities available-for-sale related to non-current assets held for sale	-	-	-	-	-	-	(2,109,762)	-	-	-	-	(2,109,762)
Reserve for valuation of investments in securities:												
Net changes in valuation of securities available-for-sale	-	-	-	-	-	-	(4,742,457)	-	-	-	-	(4,742,457)
Net gain on securities available-for-sale transferred to profit and loss	-	-	-	-	-	-	(2,262,916)	-	-	-	-	(2,262,916)
Total other comprehensive losses	-	-	-	-	-	-	(9,115,135)	3,430,634	137,247	-	-	(5,547,254)
Total comprehensive income	-	-	-	-	-	-	(9,115,135)	3,430,634	137,247	-	94,725,025	89,177,771
Other equity transactions:												
Regulatory reserve for foreclosed assets	-	-	-	-	265,869	-	-	-	-	-	(265,869)	-
Regulatory reserve for insurance business - sale of subsidiary	-	-	-	-	-	(37,177,171)	-	-	-	-	37,177,171	-
Dynamic equity reserve	-	-	-	14,807,322	-	-	-	-	-	-	(14,807,322)	-
Total of other equity transactions	-	-	-	14,807,322	265,869	(37,177,171)	-	-	-	-	22,103,980	-
Contributions and distributions to shareholders:												
Dividends paid - preferred shares	-	-	-	-	-	-	-	-	-	-	(2,861,287)	(2,861,287)
Complementary tax	-	-	-	-	-	-	-	-	-	(1,758,251)	-	(1,758,251)
Redemption of preferred shares	-	(147,151,800)	-	-	-	-	-	-	-	-	-	(147,151,800)
Issuance of common shares	1,325,780	-	-	-	-	-	-	-	-	-	-	1,325,780
Contribution to additional paid-in capital	131,252,220	-	-	-	-	-	-	-	-	-	-	131,252,220
Capital reserve - sale of subsidiary	-	-	(2,500,000)	-	-	-	-	-	-	-	2,500,000	-
Total contributions and distributions to shareholders	132,578,000	(147,151,800)	(2,500,000)	-	-	-	-	-	-	(1,758,251)	(361,287)	(19,193,338)
<b>Balance as of December 31, 2015</b>	755,069,973	-	-	88,525,106	3,358,455	-	7,110,085	(793,501)	(601,012)	(6,361,542)	101,460,076	947,767,640

**Banistmo, S. A. and Subsidiaries**

**Consolidated Statement of Cash Flows**  
**For the year ended December 31, 2015**  
**(Stated in Balboas)**

	Note	2015	2014
<b>Operating activities</b>			
Net income		94,725,025	76,814,666
Adjustments to reconcile net income to net cash flows used in operating activities:			
Depreciation and amortization	16,18,28	12,686,567	11,392,672
Amortization for software, projects and others	17,18,28	5,372,382	7,248,114
Equity participation in associates		-	49,363
Provision for loan losses	14	39,961,527	38,881,305
Provision for securities	13	399,643	-
Other provisions	9	152,815	(583,050)
Amortization of premiums and discounts on investments	13	2,420,325	2,221,335
Net loss on financial instruments	8,28	1,048,290	443,573
Net gain on sale of subsidiary	28	(24,728,429)	-
(Gain) loss on sale of fixed assets	7	(49,321)	245,036
Income tax	10	20,129,192	18,654,064
Interest and commissions income		(414,847,903)	(388,780,917)
Interest expense		134,796,510	129,269,854
Changes in operating assets and liabilities:			
Time deposits on banks with original maturity of more than 90 days		(34,550,819)	118,651,395
Securities at fair value through profit or loss		16,912,880	(28,475,235)
Securities held-to-maturity		(92,000,000)	-
Loans		(592,881,340)	(687,790,072)
Deposits		495,378,128	439,070,426
Other assets		(48,486,697)	47,973,340
Other liabilities		26,881,304	(54,696,039)
<b>Cash generated from operations</b>			
Interest received		423,824,915	390,680,288
Interest paid		(128,704,267)	(127,458,287)
Taxes paid		(16,576,859)	(259,231)
Net cash used in operating activities		(78,136,132)	(6,447,400)
<b>Investing activities</b>			
Purchases of securities available-for-sale	13	(336,717,500)	(325,969,000)
Sales and redemptions of securities available-for-sale	13	224,588,515	347,031,536
Acquisition of property and equipment	16	(45,354,740)	(14,076,091)
Sales of property and equipment		9,643,383	699,038
Decrease in investments in associates	15	-	370,628
Cash received on sale of subsidiary, net of cash transferred	28	71,833,812	-
Net cash (used in) provided by investing activities		(76,006,530)	8,056,111
<b>Financing activities</b>			
Borrowings received		331,018,612	418,672,706
Payment of financing received		(262,813,471)	(632,221,023)
Contribution to paid-in capital	21	131,252,220	-
Issuance of common shares	21	1,325,780	-
Redemption of preferred shares	22	(147,151,800)	-
Dividends paid - preferred shares		(2,861,287)	(11,604,094)
Complementary tax		(1,758,251)	(1,742,398)
Net cash provided by (used in) financing activities		49,011,803	(226,894,809)
Net decrease in cash and cash equivalents		(105,130,859)	(225,286,098)
Cash and cash equivalents at the beginning of the year		1,007,007,820	1,232,293,918
Cash and cash equivalents at the end of the year	12	901,876,961	1,007,007,820

## 1. Organization and Operations

Banistmo, S. A. started operations on August 1, 2004, under the laws of the Republic of Panama. The Superintendency of Banks of the Republic of Panama granted a Banking General License that allows the Bank to perform banking activities in Panama and abroad as well as any other activity authorized by this Superintendency.

Banistmo, S. A. offers directly, and through its subsidiaries (collectively, the "Bank") a wide variety of financial services mainly to companies and individuals. In addition to corporate and retail banking services, the Bank offers financial leasing, fiduciary administration of assets, paying agencies, registration and transfer, brokerage services, securities trading and insurance and reinsurance services. The majority of these activities are subject to supervision by the regulatory authorities.

The Bank is wholly-owned by Bancolombia, S. A., the ultimate parent.

The banking operations in the Republic of Panama are subject to regulatory requirements of the Superintendency of Banks of Panama, pursuant Executive Decree No.52 of April 30, 2008, which adopts the single text of the Law Decree No.9 of February 26, 1998, as amended by Law Decree No.2 of February 22, 2008. The Superintendency of Banks of Panama has the authority, among others, to monitor, regulate and inspect banking operations.

The main office of Banistmo, S. A. is located at Soho Mall Building, 50 Street, Panama, Republic of Panama. At December 31, 2015, the Bank and its subsidiaries had a total of 2,305 (2014: 2,578) employees.

Below is a brief description of the most important consolidated subsidiaries of Banistmo, S. A. based in Panama:

- *Financomer, S. A., Financiera Flash, S. A., and Grupo Financomer, S. A.* primarily engaged in granting loans or finance facilities to individuals and corporate businesses. The Bank owns 100% of the issued and outstanding shares of these three subsidiaries. Financial operations in the Republic of Panama are regulated and supervised by the Ministry of Commerce and Industries through the Directorate of Financial Companies, according to Decree Law No.42 of July 23, 2001.
- *Banistmo Investment Corporation S. A.* has a fiduciary license granted by the Superintendency of Banks of Panama. The investment administrator license granted by the Market Securities Superintendency was canceled through resolution No.83-14 of February 25, 2014. The subsidiary is mainly engaged in administering trusts, and offers escrow agent services. The Bank owns 100% of the issued and outstanding shares of Banistmo Investment Corporation S. A.

## 1. Organization and Operations (Continued)

- *Seguros Banistmo, S. A.* has a license to operate in the insurance and reinsurance business, particularly general risks, guarantees and life policies. The insurance and reinsurance operations in Panama are regulated by the Superintendency of Insurance and Reinsurance, under the Insurance Law No.12 of April 3, 2012 and the Reinsurance Law No.63 of September 19, 1996. On August 28, 2015, the sale of Seguros Banistmo, S. A. to Suramericana, S. A. was completed. (See Note 28).
- *Leasing Banistmo, S. A.* is mainly engaged in leasing activities. The Bank owns 100% of the issued and outstanding shares of Leasing Banistmo, S. A. The leasing activities in Panama are regulated by the Directorate of Financial Companies of the Ministry of Commerce and Industries pursuant to Law No.7 of July 10, 1990.
- *Securities Banistmo, S. A.* is a company incorporated under the laws of the Republic of Panama and engaged in brokerage activities. Under resolution No. B.S.031-01, the Securities Market Superintendency granted a license that allows the company to operate as a brokerage house. The Panamanian stock market is regulated by Law Decree 1 of July 8, 1999. The Bank owns 100% of the issued and outstanding shares of Securities Banistmo, S. A.

Hereinafter, Banistmo, S. A. will be denominated as the “Bank.” All subsidiaries of the Bank will be denominated hereinafter as, the “Subsidiaries”.

Additionally, the Bank has the following representation offices:

- *Representation Office in Guatemala:* by resolution No.507-2009 of July 3, 2009, the representation office of Banistmo, S. A. in the Republic of Guatemala was registered at the Superintendency of Banks in Guatemala. This office promotes business and grants funding in the Guatemalan territory.
- *Representation Office in Nicaragua:* by resolution No.SIBOIF-XVII-144-2009 of May 26, 2009, the representation office of Banistmo, S. A. was registered at the Public Trading Registry of the Republic of Nicaragua. This office promotes business and grants funding in the Nicaraguan territory. On December 10, 2014, it was requested to the Superintendency of Banks and Other Financial Institutions of Managua that the legal representation of the office be transferred to the lawyers in that jurisdiction, through a general power of attorney registered with the Public Trading Registry of Managua on December 11, 2014.

## 1. Organization and Operations (Continued)

- *Representation Office in Venezuela:* by means of communication SIB-DSB-CJ-OD-42198 of December 20, 2011, the representation office of Banistmo, S. A in the Bolivarian Republic of Venezuela was registered at the Superintendency of Banking Institutions in Venezuela. The closing of this Representation Office of Banistmo, S. A. in Venezuela was authorized through Resolution No. 022.15 of February 24, 2015 published in Official Gazette on March 18, 2015 No.40.623 of the Bolivarian Republic of Venezuela.
- By Resolution No. 0044 of January 14, 2015, the Financial Superintendecy of Colombia authorized the conduction of promotional events and advertising of products and services in the Colombian market and customers by Banistmo, S. A. (an entity from outside) through its parent, Bancolombia, S. A.

The consolidated financial statements have been approved for issue by the Bank's Board of Directors on February 18, 2016.

## 2. Basis of Preparation

### (a) *Compliance Declaration*

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

### (b) *Basis of Measure*

The consolidated financial statements are prepared using the historical cost method, excluding hedge and financial instruments available for sale presented at fair value with changes in comprehensive income; financial instruments at fair value and derivatives recognized at fair value with changes in profit or loss, and assets and liabilities presented as available for sale recognized between the lesser of either its book value or its fair value less cost of sale. Those financial assets that have been designated as fair value hedge are adjusted by the changes in fair value attributed to the risk its covering.

## **2. Basis of Preparation (Continued)**

### *(c) Use of Estimates and Critical Assumptions*

In the preparation of the consolidated financial statements the Administration has made certain accounting estimates and critical assumptions, and has exercised its judgment in the process of application of the accounting policies of the Bank, which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

### *(d) Functional Currency and of Presentation*

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

## **3. Summary of Significant Accounting Policies**

The significant accounting policies applied consistently in the periods presented in the consolidated financial statements are summarized as follows:

### *(a) Consolidation*

#### *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

The Bank applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquired and the equity interests issued by the Bank. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

### 3. Summary of Significant Accounting Policies (Continued)

#### (a) Consolidation (continued)

##### *Subsidiaries (continued)*

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquired is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Bank's accounting policies.

##### *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### 3. Summary of Significant Accounting Policies (Continued)

#### (a) Consolidation (continued)

##### *Disposal of Subsidiaries*

When the group ceases to have control of any retained interest in the entity, its fair value is re-measured at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

##### *Structure Entities*

Structure entities (SEs) are entities created to accomplish a narrow and well-defined objective, such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. An SE is consolidated if, based on an evaluation on the substance of its relationship with the Bank and the risks and benefits of the SE, the Bank concludes that it controls the SE. The following circumstances may indicate a relationship in which, in essence, the Bank controls and therefore consolidates the SE:

- The activities of the SE are being conducted on behalf of the Bank according to its specific business needs thereby that the Bank obtains benefits from the SEs' operation.
- The Bank has the decision-making powers to obtain the majority of the benefits of the activities of the SE or, by setting up an "autopilot" mechanism; the Bank has delegated these decision-making powers.
- The Bank has rights to obtain the majority of the benefits of the SE and, therefore, may be exposed to risks associated with the activities of the SE.
- The Bank retains the majority of the ownership and residual risks associated to the assets of the SE in order to obtain benefits from its activities.

### 3. Summary of Significant Accounting Policies (Continued)

#### (a) Consolidation (continued)

##### *Structure Entities (continued)*

The assessment of whether the Bank has control over an SE is carried out at inception and normally no further reassessment is performed in the absence of changes in the structure or conditions of the SE, or additional transactions between the Bank and the SE. Day-to-day changes in market conditions do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Bank and the SE, in such instances the Bank determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the Banks's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those originally established, change the relationship between the Bank and a SE, the Bank performs a reassessment of control over the SE.

#### (b) Foreign Currency Transactions

Foreign currency transactions are translated to Balboas (B/.) currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. Gains and losses are presented in the income statement within the other income accounts, net or other expenses.

#### (c) Fair Value Measurement

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price found in the active market. A market is regarded as active if asset or liability transactions take place with sufficient frequency and volume that provides pricing information on an ongoing basis.

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

### 3. Summary of Significant Accounting Policies (Continued)

#### (c) *Fair Value Measurement (continued)*

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. A gain or loss on the initial recognition is booked only if there is a difference between the fair value and the transaction price evidenced by other observable transactions in active markets with the same instrument or by valuation techniques with observable market data.

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

The Bank establishes a fair value hierarchy that categorizes into three levels of input data valuation techniques used for fair value measurement.

The fair value of financial assets and liabilities that are traded in an active market is based on quoted prices. For the other financial instruments the Bank determines the fair value using other valuation techniques.

Other valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which there are observable future prices in the market and other valuation models. The assumptions and inputs used in valuation techniques include risk-free rate reference, credit spreads and other assumptions used to estimate discount rates.

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

#### (d) *Cash and Cash Equivalents*

In the consolidated statement of cash flows, the Bank considers as cash and cash equivalents, cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

#### (e) *Derivative Financial Instruments*

The Bank uses derivative financial instruments, mainly foreign exchange forward contracts, as part of its operations, which are recognized in the consolidated statement of financial position at fair value.

### 3. Summary of Significant Accounting Policies (Continued)

#### (e) *Derivative Financial Instruments (continued)*

The foreign exchange forward contracts are commitments to buy or sell foreign currencies at a specified price and an agreed future date.

Derivative instruments that are not related to a hedge strategy are classified as other assets or other liabilities and are recognized in the consolidated statement of financial position at their fair value. Changes in the value of these derivative financial instruments are recognized in the consolidated income statement.

The accounting treatment in relation to the fair value of these derivative financial instruments, designated in a qualifying hedge relationship, depends on each of the following category classifications:

- *Fair value hedge*

Derivative instruments designated as fair value hedges are instruments that hedge the exposure to changes in the fair value of assets or liabilities recognized in the consolidated statement of financial position, or an identified portion of the value of those assets or liabilities attributable to the specific risk and that could affect the net result presented in the consolidated financial statements.

The hedging instruments are expressed at fair value with respect to the risk that is being covered. The changes in the value of these instruments are recognized in the consolidated income statement.

If the asset being hedged is classified as available for sale, the change in fair value of this investment is recognized in equity. From the date such asset has coverage through a derivative, the revaluation of the asset will be recognized in the consolidated income statement, and the balance for the revaluation recorded in the allowance will remain until the asset is sold or reaches its maturity date.

If the asset or liability being hedged is carried at amortized cost, the book value should be adjusted to reflect the changes in fair value. The asset or liability should be carried as amortized cost as soon as the hedge relationship ends using the effective rate of return adjusted for the amortization computation.

### 3. Summary of Significant Accounting Policies (Continued)

#### (e) *Derivative Financial Instruments (continued)*

- *Fair value hedge (continued)*

If the hedged asset carried at amortized cost has suffered an impairment loss, the loss will be computed based on the difference between the book value, after adjustments in changes in fair value of such asset as the result from the risk hedged, and the present value of the estimated discounted cash flows based on the adjusted effective rate of return.

- *Cash flows hedge*

Derivative instruments designated as cash flow hedge are instruments covering the exposure to cash flow variation associated with a previously recognized assets or liabilities or a transaction expected to be highly possible. The effective portion of any change in the fair value of the hedging instrument is recognized directly in other comprehensive income in equity, while the ineffective portion of any changes in fair value is recognized in the income statement under net loss on securities and derivatives account. Amounts accumulated in equity are reclassified to the consolidated income statement in the periods in which the hedge transaction affects the results of operations. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any remaining cumulative gain or loss existing in equity is recognized in the consolidated income statement under net loss on securities and derivatives account.

If a hedge of a forecasted transaction subsequently takes place after the recognition of an asset or liability, the related gains and losses that would have been recognized directly in equity are reclassified to income in the same period or periods during which the asset acquired or assumed liability affects the results of operations. The adjustment to the book value of a hedging instrument remains in equity until the disposal of the asset or liability.

In case it is considered that the forecasted transaction will not occur, the balance held in other comprehensive income is reclassified immediately to consolidated income statement.

- *Derivatives without accounting hedging*

Derivatives that are not associated with a hedging strategy are classified as financial assets or financial liabilities at fair value. Changes in the valuation of these derivative instruments are recognized in the consolidated statement of income under net loss on securities and derivatives account.

### 3. Summary of Significant Accounting Policies (Continued)

#### (f) *Investment Securities*

The investment securities are classified on their trade date, and are initially measured at their fair value, plus the transaction incremental related costs and are then subsequently recognized based on the current classification of the instruments by taking into account the characteristics of the instrument and the intention for which they were acquired. The classifications used by the Bank are as follows:

- **Securities at Fair Value through Profit and Loss:** This category includes those securities acquired with the purpose of generating a short term profit resulting from the price fluctuation of the instrument. These securities are shown at their fair value and the changes in the fair value are recognized in the consolidated income statement in the period in which they are generated.
- **Securities Available for Sale:** This category includes securities acquired with the intention of holding them for an undetermined period, which may be sold in response to needs for liquidity, changes in interest rates, currency exchange rates or prices of investments. These securities are measured at their fair value and the changes in value are recognized directly in the consolidated statement of comprehensive income using a valuation account until the securities are sold or redeemed or it has been determined that a security has been impaired; in these cases, the cumulative gains or losses previously recognized in other comprehensive income is recognized in the consolidated income statement. Gains or losses on foreign exchange originated by securities available for sale are recognized in the consolidated income statement under net loss on securities and derivatives account.
- **Securities held to maturity:** This category includes investments with the intention and ability to hold to maturity. These investments consist primarily of debt instruments, which are presented on the basis of amortized cost.

When the fair value of equity securities cannot be reliably measured, the securities remain valued at cost.

### 3. Summary of Significant Accounting Policies (Continued)

#### (g) *Impairment of Investments Available for Sale*

The Bank assesses at each consolidated statement of financial position date whether there is objective evidence that investment securities are impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss that has been directly recognized in equity, is removed from equity and recognized in the consolidated income statement.

If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statement. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income.

#### (h) *Loans*

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and originated generally by providing funds to a debtor as loans. Loans are initially measured at fair value plus the originating costs and any subsequent measurement at amortized cost utilizing the effective interest rate method, except when the Bank chooses to register the loans and advances at fair value with changes in profit or loss.

Finance leases are represented by equipment and automobile lease contracts, which are reported as part of the loan portfolio and recorded under the financial method, which presents the leases at the present value of the contracts. The difference between the gross lease receivable and the present value of the lease receivable is recognized as unearned interest income, and is amortized as interest income on loans during the period of the lease under the effective interest rate method.

Restructured or renegotiated loans consist of financial assets whose original terms and conditions, such as interests, monthly installments, or guarantees have been modified due to difficulties of repayment by the debtor.

### 3. Summary of Significant Accounting Policies (Continued)

#### (i) *Loan Impairment*

At the date of the consolidated statement of financial position, the Bank assesses whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that the event (or events) of loss has an impact on the estimated future cash flows of the loan that can be estimated reliably. Objective evidence that a loan or group of loans is impaired includes observable data about the following events of loss: significant financial difficulty of the debtor; a breach of contract, such as delinquency in interest or principal payments; for economic or legal reasons related to financial difficulties of the borrower, the borrower is given a concession that would not be otherwise considered; probability that the borrower will enter into bankruptcy or other financial reorganization; or observable data indicating that there is a measurable decrease in the estimated future cash flows of a loan since initial recognition.

The Bank assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss exists or continues, are not included in a collective assessment of impairment.

The impairment loss of an individually significant loan is calculated by comparing the present value of future expected cash flows, discounted at the original effective interest rate of the loan, against its book value. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated according to contractual cash flows of the assets in the group, historical loss experiences for assets with credit risk characteristics similar to the group, and qualified views of the Administration on whether current economic and credit conditions are such that the actual level of inherent losses is likely to be higher or lower than the suggested historical experience.

### 3. Summary of Significant Accounting Policies (Continued)

#### (i) *Loan Impairment (continued)*

When a loan is considered uncollectible, it is charged against the allowance for loan losses, which is presented as a deduction from loans receivable in the consolidated statement of financial position. The amount of impairment losses on loans is recognized as an expense in the consolidated income statement. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

#### (j) *Properties, Furniture, Equipment and Improvements*

Properties, furniture, equipment and improvements comprise land, buildings, furniture and improvements used by branches and offices. All properties, furniture, equipment and improvements are stated at historical cost less accumulated depreciation and amortization. Historical cost includes expenditure directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation and amortization expenses are recognized in the consolidated income statement using the straight-line method over the estimated useful life of the assets, except for land, which is not depreciated. The estimated useful lives of the assets are summarized as follows:

Properties	17- 30 years
Improvements	10 years
Furniture and equipment	3 - 7 years
Computer equipment	3 - 5 years
Vehicles	4 years

### 3. Summary of Significant Accounting Policies (Continued)

(j) *Properties, Furniture, Equipment and Improvements (continued)*

The estimated useful life of assets are reviewed and adjusted, if appropriate, at each date of the consolidated statement of financial position. Properties, furniture, equipment and improvements are reviewed for impairment whenever events or changes in circumstances that indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

(k) *Goodwill and Other Intangibles, Net*

Goodwill arises from the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquired and the fair value of any previous equity interest in the acquired over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGU (cash generating units), or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

### 3. Summary of Significant Accounting Policies (Continued)

#### *(k) Goodwill and Other Intangibles, Net (continued)*

##### *Other Intangible Assets - Software*

Research costs are expensed as incurred. Disbursements directly related to the development in an individual project are recognized as intangible assets when the Bank can demonstrate:

- The technical feasibility of completing the intangible asset so that it is available for use or sale;
- Its intention to complete the asset and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

In the consolidated statement of financial position, asset development expenditure is stated at cost less accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development has been completed and the asset is available for use. It is amortized over the period of expected future economic benefit.

#### *(l) Impairment of Non-financial Assets*

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

### 3. Summary of Significant Accounting Policies (Continued)

#### *(m) Deposits, Issued Debt and Equity Securities*

The deposits, issued debt and equity securities are the result of the resources that the Bank receives and are initially measured at fair value net of transaction costs. Subsequently, they are measured at amortized cost using the effective interest rate method except for those liabilities that the Bank decides to register at fair value with changes in profit or loss. The Bank classifies the equity instruments under financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

#### *(n) Borrowings*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

#### *(o) Financial Guarantees*

Financial guarantees are contracts that require the Bank to make specific payments on behalf of its clients, to reimburse the beneficiary of the guarantee if the customer fails to pay on the agreed date, according to the terms and conditions of the contract.

Financial guarantee liabilities are initially recognized at fair value; this initial value is amortized over the life of the financial security. Subsequently, the guarantee is recorded at the higher of the amortized amount and the present value of expected future payments. Financial guarantees are included in the consolidated statement of financial position under sundry creditors.

#### *(p) Interest Income and Expense*

Interest income and expense are generally recognized in the consolidated income statement, for all financial instruments measured at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses.

### 3. Summary of Significant Accounting Policies (Continued)

*(p) Interest Income and Expense (continued)*

The calculation includes all fees paid or received between parties of the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs are origination costs, directly attributable to the acquisition, issuance or disposition of an asset or liability.

Under IAS 39 Financial Instruments: Recognition and Measurement, the accrued interest deferral on impaired loans is not required. Article 30 of the Agreement No. 4-2013 (and Article 18 of the previous Agreement No.6-2000) demand for the deferral of interest recognition when the Bank a) determines the deterioration in the client's financial condition, and/or b) the debtor has not made the originally agreed contractual payments over a number of days depending on the type of loan, and c) the Bank determines the uncertainty of recovering the totality of the overdraft in the absence of cancellation in a certain number of days.

*(q) Fees and Commission Income*

Generally, the commission and fees 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. The fees and commissions on medium and long-term transactions are deferred and amortized as income using the effective interest rate method over the life of the loan. Loans commissions not related to the effective interest rate are included as income on loan commissions in the consolidated income statement.

*(r) Insurance Operations*

Insurance operations are presented net, under net other income account. The written premiums of the insurance business are composed by the premiums on contracts that have been agreed during the year, whether fully or in part related with a subsequent financial year.

The corresponding liabilities from the insurance policies of individuals are managed in accordance with the basis of general insurance business, with the exception of individual and traditional life which revenues are recognized on cash received basis. The ceded reinsurance is recognized as an expense consistent with the recognition basis for insurance contracts.

### 3. Summary of Significant Accounting Policies (Continued)

#### (r) *Insurance Operations (continued)*

The earned portion on written premiums is recognized as revenue. The premiums exclude any tax based on them. Premiums are earned from the date the risk is fixed, over the indemnity period. The ceded reinsurance is recognized as an expense consistent with the recognition basis for insurance contracts.

The estimated claims pending to be settled consist of all claims incurred but not yet paid at the date of the consolidated statement of financial position, reported or not, and the internal and external expenses related to the handling claims.

The fees paid to brokers and taxes paid on premiums are deferred in the consolidated statement of financial position as deferred acquisition costs according to their relationship with unearned premiums net of reinsurers.

Costs incurred in the acquisition of general insurance and life insurance contracts are deferred by whichever value is recoverable through future margins. Acquisition costs include direct costs on standard commissions as detailed in the technical notes for brokers or agents, and 2% tax on premiums.

#### (s) *Insurance Provisions*

Insurance provisions are presented in sundry creditors insurance business account. Provisions are recognized when the subsidiary has a present legal or constructive obligation as a result of a past event; when it is probable that the entity requires an outflow of resources to settle the obligation; and when the estimated amount is deemed to be reliable. Failure to meet these three conditions, the entity shall not recognize a provision.

The mathematical provisions are adjusted to the formulas and technical basis approved by the Superintendency of Insurance and Reinsurance of Panama in the respective technical notes and reflect the net value of the obligations of insurance companies according to the current portfolio.

For universal life reserves the estimates on the policyholders' interest is included, represented by the premiums received to date together with interest and income earned, less expenses and service charges included.

### 3. Summary of Significant Accounting Policies (Continued)

(s) *Insurance Provisions (continued)*

The options and guarantees inherent in some insurance contracts that transfer significant insurance risk are not separated nor measured at fair value. These obligations are included as part of the mathematical provisions.

(t) *Net Income in Assets and Liabilities for Trading*

Net income in trading assets and liabilities is comprised of gains less losses related to such instruments and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences and are presented in the consolidated income statement.

(u) *Net Income from Other Financial Instruments at Fair Value*

Net income from other financial instruments at fair value relates to non-qualifying derivatives held for risk hedging management purposes and financial assets and liabilities for trading, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences and is presented in the consolidated income statement.

(v) *Dividends Income*

Dividends are recognized in the consolidated income statement when the entity has the right to receive the established payments.

(w) *Assets and Liabilities Held for Sale*

The disposal group of assets and liabilities expected to be recovered through a sale rather than through continuing use are classified as held for sale. Immediately before classifying them as held for sale, assets or components of a group of assets for disposal are valued again according to the Bank's accounting policies. Since this classification, they are recognized at the lower of carrying amount and fair value less costs to sell. An impairment loss is recognized for initial or subsequent reductions determined by the corresponding group of assets and liabilities. The impairment losses on initial and subsequent classification of assets and liabilities as held for sale are recognized in the consolidated income statement.

### 3. Summary of Significant Accounting Policies (Continued)

#### (x) *Discontinued Operations*

A discontinued operation is a component of the Bank that has been sold or disposed by other means, or has been classified as held for sale, and (i) represents a line of business or geographical area of operation that is significant and can be considered separately from the rest, (ii) is part of a single coordinated plan to sell or otherwise dispose of a line of business or geographical area of operation that is meaningful and can be considered separately from the rest, or (iii) is a subsidiary acquired exclusively with the intention to resell it.

Classification as a discontinued operation occurs at the disposal of the operation or when it meets the criteria for classification as held for sale, whichever occurs first. When an operation is classified as discontinued, the comparative consolidated statements of income and comprehensive income are modified as if the operation would have been discontinued since the beginning of the comparative year.

A discontinued operation is initially measured at the lower of its carrying value and fair value less cost of sale, and an impairment loss for any initial or subsequent decrease in discontinued operations at fair value less cost of sale is recognized. A gain is recognized for any subsequent increases in fair value less cost of sale of an asset, but not in excess of the cumulative impairment loss that had been previously recognized.

#### (y) *Segment Information*

A business segment is a component of the Bank. For the purpose of decision making, in relation to the resources allocated to the segment, its operating results are regularly reviewed by Management, for which financial information is readily available.

#### (z) *Share Capital and Reserves*

Certain financial instruments are classified as equity instruments in accordance with the contractual terms of such instruments. The preferred stocks, not redeemable at a specific date by the shareholder's choice and that does not lead to dividend obligations, are presented as capital stocks. These financial instruments are presented as a component of stockholders' equity.

The originating costs directly attributable to the issue of the equity instrument are shown as a deduction from the original cost of such instruments.

### 3. Summary of Significant Accounting Policies (Continued)

(z) *Share Capital and Reserves (continued)*

Regulatory provisions required by the Superintendency of Banks of Panama and Superintendency of Insurance and Reinsurance of Panama are disclosed in Note 29.

(aa) *Earnings per Share*

Basic earnings per share measures the performance of the Bank's reporting period and is calculated dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share reflect all the dilutive potential effects of ordinary shares, for the stock purchase under the stock option plan.

(ab) *Dividend Distribution*

The distribution of dividends to shareholders is recognized as a liability in the financial statements of the Bank in the period in which the dividends are approved by the Board of Directors.

(ac) *Employee Benefits*

The Panamanian labor law requires employers to constitute an Unemployment Fund, on behalf of the employees, to guarantee the seniority premium and compensation payment that the employee may be entitled in the event that the employment relationship ends due to unfair dismissal or resignation. The Fund is created based on the employee's seniority premium quoted quarterly based on 1.92% of the wages paid in the Republic of Panama and the 5% of the monthly compensation fee quoted quarterly as well. The quarterly contributions must be deposited in a trust. Such contributions are recognized as an expense in the income statement. The unemployment fund is held in a private trust and administered by an independent entity to the Bank and its subsidiaries.

These contributions are considered as a defined benefit plan, which are measured at the present value of future payments in respect of services rendered by employees using the projected credit method.

(ad) *Income Tax*

Estimated income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the consolidated statement of financial position date, and any other adjustment to tax payable in respect of previous years.

### 3. Summary of Significant Accounting Policies (Continued)

*(ad) Income Tax (continued)*

The deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if it arises from initial recognition of goodwill; the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to be applied when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent that it is plausible that a future taxable gain will be available so that the temporary differences can be applied.

The assets and deferred tax liabilities are offset when there is a legal right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities derived from the gain of the same tax authority of the same taxable entity or different taxable entities have an intention to liquidate the balances on a net basis.

*(ae) Reserves for Contingent Credit Risks*

The Bank uses the reserve method to provide for contingent losses of a credit nature. The reserve increases by a provision recognized as provision expense in the consolidated income statement, and is decreased by write offs related to the credit nature of these contingent losses.

*(af) Trust Operations*

Trust assets or administered by the trustee are not considered part of the Bank, consequently, such assets and their corresponding income are not included in the consolidated financial statements. It is the obligation of the Bank to manage the trust resources according to the contracts and separately from their equity.

### 3. Summary of Significant Accounting Policies (Continued)

(af) *Trust Operations (continued)*

The Bank charges a fee for the trusteeship of the funds paid by the trustor based on the balance amount carried of the trust or the agreements between the parties. These fees are recognized in income according to the terms written on the trust agreements either monthly, quarterly or annually, on an accrual basis.

(ag) *New Standards and Amendments Adopted by the Bank*

There are no standards and amendments adopted for the first time for the year beginning on January 1, 2015 that have had a material impact on the consolidated financial statements of the Bank.

(ah) *New Standards and Amendments not yet Adopted by the Bank*

New standards, interpretations and amendments to accounting standards have been published but are not mandatory for the year ended December 31, 2015, and have not been early adopted by the Bank. The assessment of the impact of these new standards is presented below:

- **IFRS 9 Financial Instruments.** IFRS 9 refers to the classification, recognition, measurement and discard of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made additional changes in the rules of classification and measurement, and also introduced a new model of impairment. These latest amendments now complete the new standard for financial instruments. This standard is effective for annual periods beginning on or after January 1, 2018 and early adoption is permitted.
- **IFRS 15 Revenue from Contracts with Customers.** The IASB issued a new standard for revenue recognition. This standard will replace IAS 18, which covers contracts for goods and services and covering IAS 11 construction contracts. The new standard is based on the principle that revenue is recognized when control of the good or service is transferred to a customer, so the concept of control replaces the existing concept of risks and benefits. The Standard allows for adopting a modified retrospective approach. Under this approach, entities will recognize transitional adjustments in retained earnings at the date of the initial application without restating the comparative period. The new rules will be needed to apply only to contracts that have not been completed on the date of the initial application. This standard is effective for annual periods beginning on or after January 1, 2018 and early adoption is permitted.

### **3. Summary of Significant Accounting Policies (Continued)**

#### *(ah) New Standards and Amendments not yet Adopted by the Bank (continued)*

- **IFRS 16 Leases.** On January 13, 2016 the IFRS 16 Leases was issued, which replaces the current IAS 17 Leases. IFRS 16 eliminates classification of leases either as operating leases or finance leases for the lessee. Instead, all leases are recognized similarly to finance leases under IAS 17. Leases are measured at the present value of future lease payments and are presented as either leased assets (assets right of use) or along with property, furniture and equipment. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that also adopt IFRS 15 - Revenue from Contracts with Customers.

By the nature of the financial operations of the Bank, the adoption of these standards will have a significant impact on the consolidated financial statements, something that is being evaluated by the Administration.

#### *(ai) Uniformity in the Presentation of the Consolidated Financial Statements*

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

Based on the application of IFRS 5 - Discontinued Operations, information on the consolidated statement of income for the year ended December 31, 2014 has been restated, only for the fulfillment of this accounting standard, which should not be interpreted as an error correction.

Some figures and disclosures in the consolidated financial statements for 2014 have been reclassified to uniform its presentation to 2015.

### **4. 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 activities are mainly related to the use of financial instruments including derivatives and, as such, the consolidated statement of financial position is comprised mainly of financial instruments.

#### **4. Financial Instruments Risk Management (Continued)**

The Board of Directors of the Bank and the Management of the Bank have the responsibility of establishing and monitoring the risk management policies of the financial instruments. For this purpose, they have established certain committees which are responsible for the management and periodic monitoring of risks to which the Bank is exposed; these committees are: Asset and Liability Managing Committee, Risk Committee, Audit Committee and Operational Risk Committee.

Additionally, the Panamanian Bank is subject to the regulations of the Superintendency of Banks of Panama, the Securities Market Superintendency, and the Superintendency of Insurance and Reinsurance of Panama concerning the concentrations of risks, liquidity and capitalization, among others.

The Audit Committee oversees how management monitors compliance with the policies and risk management procedures and checks whether the risk management framework is appropriate for the Bank. This Committee is assisted by Internal Audit. It conducts periodic reviews of controls and risk management procedures, the results are reported to the Audit Committee.

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

*(a) Credit Risk*

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

To mitigate the credit risk, risk management policies establish the processes and controls to be followed for the approval of loans and granting of credit facilities.

The Committees assigned by the Board of Directors and Management of the Bank, watch periodically the financial condition of the respective debtors and issuers that involve a credit risk to the Bank.

#### 4. Financial Instruments Risk Management (Continued)

(a) *Credit Risk (continued)*

The Bank has established certain procedures to manage the credit risk summarized as follows:

- *Establishment of Credit Policies*  
The credit policies, both for Retail Banking and Small and Medium Enterprises (SMEs), as well as Business Banking and Government, are made in coordination with the business units and the risk units through the approval of credit policies and Risk Management Committee, which in turn reports to the Board of Directors.
- *Establishment of Authorization Limits*  
Authorization limits are approved by the Board of Directors, according to the recommendation of the Risk Management Committee.
- *Limits of Concentration and Exposure*  
Limits of concentration and exposure, such as limits for specific industries, and limits for economic groups, are established for those segments that are considered necessary by the Risk Management Committee, taking into consideration the level of capital of the Bank and the size of the credit portfolio and to comply with the banking regulation in Panama.
- *Development and Maintenance of Risk Assessment*  
Risk assessments are individually made for customers of Business and Government segment and by portfolio and/or product for customers of Retail and SMEs segments.
- *Review of Compliance of Policies*  
The review of compliance of policies is done through annual evaluations of the commercial clients and through monthly sampling of the portfolio in the case of consumer clients. These assessments and samplings are periodically reviewed by the Audit Committee.

#### 4. Financial Instruments Risk Management (Continued)

##### (a) Credit Risk (continued)

##### Credit Quality Analysis

The following table analyzes the credit quality of the Bank's financial assets (excluding accrued interest receivable), and the impairment/loss provisions:

	Loans Receivable		Investments in Securities		Contingencies of Credit Risk	
	2015	2014	2015	2014	2015	2014
<b>Maximum exposure</b>						
Net carrying value	<u>6,726,577,855</u>	<u>6,185,275,251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At amortized cost</b>						
Normal	6,556,299,346	5,978,131,932	-	-	-	-
Special mention	164,656,114	173,042,556	-	-	-	-
Substandard	53,165,442	57,885,724	-	-	-	-
Doubtful	82,692,364	78,466,618	-	-	-	-
Unrecoverable	<u>9,727,697</u>	<u>22,471,221</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Gross amount	6,866,540,963	6,309,998,051	-	-	-	-
Allowance for impairment	(66,315,731)	(62,475,656)	-	-	-	-
Interest and commissions discounted	<u>(73,647,377)</u>	<u>(62,247,144)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net carrying value	<u>6,726,577,855</u>	<u>6,185,275,251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Available for sale (excluding shares in capital)</b>						
Investment grade	-	-	476,800,011	425,624,705	-	-
High risk	<u>-</u>	<u>-</u>	<u>83,345,030</u>	<u>98,483,358</u>	<u>-</u>	<u>-</u>
Net carrying value	<u>-</u>	<u>-</u>	<u>560,145,041</u>	<u>524,108,063</u>	<u>-</u>	<u>-</u>
<b>With changes through profit or loss</b>						
Investment grade	-	-	168,207,703	193,631,138	-	-
Moderate risk	<u>-</u>	<u>-</u>	<u>29,655,509</u>	<u>20,969,074</u>	<u>-</u>	<u>-</u>
Carrying value	<u>-</u>	<u>-</u>	<u>197,863,212</u>	<u>214,600,212</u>	<u>-</u>	<u>-</u>
<b>Held to maturity</b>						
Moderate risk	-	-	35,000,000	-	-	-
High risk	<u>-</u>	<u>-</u>	<u>57,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Carrying value	<u>-</u>	<u>-</u>	<u>92,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Renegotiated Loans</b>						
Gross amount	62,082,613	60,555,911	-	-	-	-
Impaired amount	39,403,417	37,176,621	-	-	-	-
Allowance for impairment	<u>(9,361,374)</u>	<u>(5,804,129)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net carrying value	<u>52,721,239</u>	<u>54,751,782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

#### 4. Financial Instruments Risk Management (Continued)

(a) *Credit Risk (continued)*  
Credit Quality Analysis (continued)

	Loans Receivable		Investments in Securities		Contingencies of Credit Risk	
	2015	2014	2015	2014	2015	2014
<b>Not in default nor impaired</b>						
Normal	<u>6,548,841,649</u>	<u>5,915,376,733</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>In default but not impaired</b>						
31 to 60 days	109,110,012	82,735,606	-	-	-	-
61 to 90 days	24,951,075	95,923,315	-	-	-	-
91 to 180 days	86,273,314	59,512,340	-	-	-	-
181 days or more	<u>4,944,852</u>	<u>55,512,219</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>225,279,253</u>	<u>293,683,480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Individually impaired</b>						
Doubtful	82,692,364	78,466,618	-	-	-	-
Unrecoverable	<u>9,727,697</u>	<u>22,471,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>92,420,061</u>	<u>100,937,838</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Allowance for impairment based on classification</b>						
Individual	<u>66,315,731</u>	<u>62,475,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total allowance for impairment	<u>66,315,731</u>	<u>62,475,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Allowance for impairment based on the methodology of the provision</b>						
Individual	22,347,878	44,134,953	-	-	-	-
Collective	<u>43,967,853</u>	<u>18,340,703</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>66,315,731</u>	<u>62,475,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Past due portfolio</b>						
91 to 180 days	119,889,813	76,048,872	-	-	-	-
181 days or more	<u>44,086,779</u>	<u>28,743,932</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>163,976,592</u>	<u>104,792,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Commitments and Contingencies</b>						
Normal	-	-	-	-	<u>1,847,418,998</u>	<u>2,062,255,866</u>
Net carrying value	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,847,418,998</u>	<u>2,062,255,866</u>

#### 4. Financial Instruments Risk Management (Continued)

##### (a) Credit Risk (continued)

As described in the previous table, the factors of greater risk exposure and information about impaired assets and the assumptions used for these disclosures are the following:

- *Impairment of loans and investments in securities*  
Management determines if there is objective evidence of impairment on the loans, based on the following criteria established by the Bank:
  - Failure to comply with interest or principal payments;
  - Cash flows with experienced difficulties by the borrower;
  - Failure to comply with the terms and conditions agreed;
  - Initiation of bankruptcy proceedings;
  - Impairment of the borrower's competitive position; and
  - Impairment in the collateral value.
- *In default but not impaired*  
They are considered in default but not impaired, or not incurred losses, such as loans and investments that have a level of guarantees and / or sources of payment sufficient to cover the carrying value of the loan and investment. The amounts disclosed in the table above exclude investments measured at fair value through profit or loss.
- *Renegotiated loans*  
Renegotiated loans are those that have been restructured due to impairment in the debtor's financial condition, and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.
- *Allowances for impairment*  
The Bank has established allowances for impairment that represent an estimate of the incurred losses in the loan portfolio. The main components of this allowance are related to individual risks and the allowance for losses on loans estimated on a group basis considering a homogeneous group of assets in terms of incurred losses identified on loans subject to a specific impairment.

#### 4. Financial Instruments Risk Management (Continued)

(a) *Credit Risk (continued)*

- *Write-offs policy*

The Bank determines the write-off of an individual loan or group of loans that are deemed uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance loans, write-off decisions generally are based on a past due loan status.

The table below shows the credit worthiness of term deposits and instruments classified as available-for-sale and securities at fair value through profit or loss (excluding accrued interest receivable). The analysis is based on the ratings assigned by credit rating agencies:

	<b>2015</b>	<b>2014</b>
<b>Time deposits</b>		
Investment grade	289,915,081	210,523,003
Speculation grade	32,456,800	10,000,000
Non-investment grade	<u>54,301,124</u>	<u>79,328,986</u>
	<u>376,673,005</u>	<u>299,851,989</u>
<b>Securities held-for-sale</b>		
<b>Corporate bonds</b>		
Investment grade	-	6,278,521
Non-investment grade	<u>-</u>	<u>7,140,000</u>
	<u>-</u>	<u>13,418,521</u>
<b>Government bonds</b>		
Investment grade	476,800,011	419,346,184
Non-investment grade	<u>83,345,030</u>	<u>91,343,358</u>
	<u>560,145,041</u>	<u>510,689,542</u>

#### 4. Financial Instruments Risk Management (Continued)

(a) Credit Risk (continued)

	2015	2014
<b>Investment at fair value through profit or loss</b>		
<b>Corporate bonds</b>		
Investment grade	29,043,382	3,502,941
Speculation grade	<u>3,528,912</u>	<u>2,150,556</u>
	<u>32,572,294</u>	<u>5,653,497</u>
<b>Government bonds</b>		
Investment grade	139,164,321	190,128,197
Speculation grade	<u>26,126,597</u>	<u>18,818,518</u>
	<u>165,290,918</u>	<u>208,946,715</u>
<b>Securities held-for-sale</b>		
<b>Corporate bonds</b>		
Investment grade	35,000,000	-
Non-investment grade	<u>57,000,000</u>	<u>-</u>
	<u>92,000,000</u>	<u>-</u>
Grand total	<u>1,226,681,258</u>	<u>1,038,560,264</u>

In order to manage financial risk exposures of the investment portfolio, the Bank uses international classifications, as detailed below:

Credit Rating	International Rating			
	2015		2014	
	From	To	From	To
Investment grade	AAA	BBB-	AAA	BBB-
Speculation grade	BB+	CCC	BB+	BB-
Non-investment grade	CC	No grade	B+	C

#### 4. Financial Instruments Risk Management (Continued)

##### (a) Credit Risk (continued)

###### Deposits Placed with Banks

At December 31, 2015 the Bank maintained placed deposits with banks for B/.376,673,005 (2014: B/.299,851,989). The deposits placed mainly with financial institutions with investment grade (between AAA and BBB-), based on international rating agencies, amount to B/.289,915,081 (2014: B/.210,523,003). In the “Non-investment grade” category are included time deposits in local financial institutions.

The value of the collaterals of those loans in default and past due balances (excluding accrued interest receivable) is presented as follows:

	<b>2015</b>	<b>2014</b>
Cash	1,341,240	3,083,133
Properties	204,617,050	173,073,476
Equipments	14,637,176	14,230,201
Other	<u>21,619,037</u>	<u>16,271,801</u>
	<u>242,214,503</u>	<u>206,658,611</u>

###### Guarantees and their Financial Effect

The table below presents the main types of collateral taken with respect to various types of financial assets:

	<b>% of exposure subject to guarantees requirements</b>		<b>Type of Guaranty</b>
	<b>2015</b>	<b>2014</b>	
Loans receivable:			
	12%	14%	Cash
	78%	78%	Properties
	9%	7%	Equipments
	1%	1%	Others

###### Residential Mortgage Loans

The table below presents credit exposure from residential mortgage loans by ranges of loan-to-value (LTV) ratio. The value of the loan or "loan to value" (LTV) is a mathematical equation that measures the ratio between what is lent and the value of the property that will be the subject (and collateral) of the loan. The gross amounts exclude any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

#### 4. Financial Instruments Risk Management (Continued)

(a) *Credit Risk (continued)*

Residential Mortgage Loans (continued)

The value of the collateral for residential mortgage loans is based on the collateral value at the disbursement date and it is generally not updated, except if the credit is updated based on changes in collateral price index:

<b>% LTV</b>	<b>2015</b>	<b>2014</b>
Less than 50%	258,383,643	244,600,779
51–70%	532,192,436	507,717,255
71–90%	862,991,977	727,094,325
91–100%	195,444,385	141,530,972
More than 100%	<u>10,271,604</u>	<u>8,131,786</u>
	<u>1,859,284,045</u>	<u>1,629,075,117</u>

Corporate Loans

The overall credit quality of a corporate client tends to be the most relevant indicator of the credit quality of a loan. However, the collateral provides additional security and the Bank usually asks companies to provide it. The Bank does not routinely update the valuation of collaterals taken for a loan to corporate customers. Valuation of the collateral is updated when the credit risk of a loan is deteriorated significantly and the loan is monitored with more emphasis. For doubtful recoverable loans, the Bank obtains collateral valuations because the current value of the collateral is an input to the impairment measurement. At December 31, 2015, the net accounting value of the impaired loans and corporate commitments not paid amounted to B/.143,202,563 (2014: B/.149,286,525) and the value of the collaterals for those loans and commitments amount to B/.140,644,112 (2014: B/.90,634,302).

Foreclosed Assets

The following table presents the financial and non-financial assets that the Bank took possession of collaterals to guarantee the collection of credit or it has been executed other credit enhancement during the year:

	<b>2015</b>	<b>2014</b>
Properties	1,993,992	2,161,600
Furniture and equipments	<u>956,024</u>	<u>704,020</u>
	<u>2,950,016</u>	<u>2,865,620</u>

#### 4. Financial Instruments Risk Management (Continued)

##### (a) Credit Risk (continued)

###### Foreclosed Assets (continued)

The Bank's policy is to perform or execute the sale of these assets to cover the outstanding balances. Usually is not the Bank's policy to use non-financial assets for its own operations.

###### Concentration of Credit Risk

The Bank monitors the credit risk concentration by sector and geographic location. An analysis concentration of credit risk from financial instruments (excluding accrued interest receivable) at the reporting date of the consolidated financial statements is as follows:

	Loans Receivable		Investments in Securities (excluding equity shares)		Contingencies with Credit Risk	
	2015	2014	2015	2014	2015	2014
Carrying value	<u>6,726,577,855</u>	<u>6,185,275,251</u>	<u>850,008,253</u>	<u>738,708,275</u>	<u>1,847,418,998</u>	<u>2,062,255,866</u>
<b>Concentration by Sector</b>						
Corporate	3,574,626,021	3,035,755,115	124,572,294	19,072,018	671,138,856	712,918,270
Consumer	3,211,618,783	3,165,544,760	-	-	1,090,453,430	1,181,009,606
Government	<u>80,296,159</u>	<u>108,698,176</u>	<u>725,435,959</u>	<u>719,636,257</u>	<u>85,826,712</u>	<u>168,327,990</u>
	6,866,540,963	6,309,998,051	850,008,253	738,708,275	1,847,418,998	2,062,255,866
Less:						
Allowance	66,315,731	62,475,656	-	-	-	-
Interest and commissions discounted	<u>73,647,377</u>	<u>62,247,144</u>	-	-	-	-
Carrying value	<u>6,726,577,855</u>	<u>6,185,275,251</u>	<u>850,008,253</u>	<u>738,708,275</u>	<u>1,847,418,998</u>	<u>2,062,255,866</u>
<b>Geographical Concentration</b>						
Panama	6,399,282,782	5,774,104,447	480,494,730	455,789,709	1,613,545,570	1,753,932,029
Latin-American and the Caribbean	461,576,334	509,768,715	90,116,680	63,645,445	202,561,020	219,732,476
United States of America and Canada	5,681,847	26,124,889	279,396,843	219,273,121	7,213,773	27,908,693
Europe	-	-	-	-	8,881,605	35,551,173
Others	-	-	-	-	<u>15,217,030</u>	<u>25,131,495</u>
	6,866,540,963	6,309,998,051	850,008,253	738,708,275	1,847,418,998	2,062,255,866
Less:						
Allowance	66,315,731	62,475,656	-	-	-	-
Interest and commissions discounted	<u>73,647,377</u>	<u>62,247,144</u>	-	-	-	-
Carrying value	<u>6,726,577,855</u>	<u>6,185,275,251</u>	<u>850,008,253</u>	<u>738,708,275</u>	<u>1,847,418,998</u>	<u>2,062,255,866</u>

The geographic concentrations of loans and contingencies with credit risk are based on the debtor's location. In relation to the geographic concentration for investments, it is based on the issuer's location.

#### **4. Financial Instruments Risk Management (Continued)**

##### *(b) Liquidity or Financing Risk*

Liquidity risk is defined as the potential loss due to the difficulty to liquidate assets or obtain funding under normal conditions to meet its obligation associated with its liabilities. Liquidity risk may be affected by factors, such as: an unexpected withdrawal of funds by creditors or customers, the deterioration of the quality of the loan portfolio, the devaluation of securities, the excessive concentration of liabilities from one particular source, a gap between assets and liabilities, a shortage of asset liquidity, or the mismatch of long-term asset financing with short-term liabilities.

Risk liquidity management policies establish a minimum level of liquid assets that need to be maintained to cover the expected maturity date of the liabilities and other obligations of the Bank.

##### Management of Liquidity Risk

Risk management policies establish a liquidity limit in order to determine the amount of the Bank's assets that should be maintained in high liquidity instruments. The Bank is exposed to daily requirements on its available daily cash resources, demand deposits, time deposits, loan disbursements and guarantees, and margin requirements settled in cash.

The Board of Directors and Bank Management have established minimum liquidity levels on the minimum proportion of available funds to comply with such requirements and on the minimum level of inter-banking facilities and other loan facilities that should exist to cover withdrawals in unexpected levels of demand. The Bank holds a short-term assets portfolio, comprised mainly by liquid instruments, loans and advances from banks and other inter-banking facilities to ensure holding enough liquidity.

##### Exposure to Liquidity Risk

The methodology for measuring liquidity risk of the various positions of balance, both assets and liabilities, is to project the expected future cash flows of both capital and interest; some positions are affected by indicators to convert contractual flows to expected cash flows. The flows are classified in predefined time bands, and the difference between assets and liabilities is computed in order to obtain the liquidity GAP for different time horizons. The Survival Horizon is obtained when the minimum liquid assets are not enough to offset the negative liquidity bands.

#### 4. Financial Instruments Risk Management (Continued)

##### (b) Liquidity or Financing Risk (continued)

###### Exposure to Liquidity Risk (continued)

Following are the liquid assets' ratios over deposits received from customers, under the guidelines of regulatory liquidity required by the Superintendency of Banks of Panama, at the date of the consolidated financial statements:

	2015	2014
Average of the year	45.48%	46.19%
Maximum of the year	48.79%	52.81%
Minimum of the year	41.10%	41.34%

The following table analyzes financial assets and liabilities (excluding accrued interest receivable and payable), on maturity groupings based on the remaining period from the date of the consolidated statement of financial position versus the contractual maturity date:

2015	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Carrying value
<b>Assets</b>							
Cash and cash effects	224,237,933	-	-	-	-	-	224,237,933
Deposits in banks	570,119,903	107,519,125	43,996,124	-	-	-	721,635,152
Loans, net	211,804,510	412,715,992	1,075,820,097	1,939,125,943	3,087,111,313	-	6,726,577,855
Investment in securities	<u>50,513,632</u>	<u>76,938,156</u>	<u>12,503,145</u>	<u>484,117,567</u>	<u>225,935,753</u>	<u>14,234,121</u>	<u>864,242,374</u>
<b>Total assets</b>	<u><u>1,056,675,978</u></u>	<u><u>597,173,273</u></u>	<u><u>1,132,319,366</u></u>	<u><u>2,423,243,510</u></u>	<u><u>3,313,047,066</u></u>	<u><u>14,234,121</u></u>	<u><u>8,536,693,314</u></u>
<b>Liabilities</b>							
Demand deposits	1,460,286,295	-	-	-	-	-	1,460,286,295
Saving deposits	1,695,067,154	-	-	-	-	-	1,695,067,154
Time deposits	446,774,452	283,076,830	1,203,259,916	1,122,390,108	-	-	3,055,501,306
Interbank deposits	111,831,604	222,150,091	18,014,842	450,000	-	-	352,446,537
Borrowings	<u>57,393,238</u>	<u>151,747,359</u>	<u>352,531,470</u>	<u>527,500,000</u>	-	-	<u>1,089,172,067</u>
<b>Total liabilities</b>	<u><u>3,771,352,743</u></u>	<u><u>656,974,280</u></u>	<u><u>1,573,806,228</u></u>	<u><u>1,650,340,108</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>7,652,473,359</u></u>

#### 4. Financial Instruments Risk Management (Continued)

##### (b) Liquidity or Financing Risk (continued)

##### Exposure to Liquidity Risk (continued)

2014	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	No maturity	Carrying value
<b>Assets</b>							
Cash and cash effects	122,988,552	-	-	-	-	-	122,988,552
Deposits in banks	771,467,895	110,835,794	11,160,884	-	-	-	893,464,573
Loans, net	619,255,975	459,585,666	852,860,541	1,497,619,622	2,755,953,447	-	6,185,275,251
Investment securities	56,431,654	113,998,670	43,545,914	326,388,376	198,343,661	16,921,659	755,629,934
<b>Total assets</b>	<u>1,570,144,076</u>	<u>684,420,130</u>	<u>907,567,339</u>	<u>1,824,007,998</u>	<u>2,954,297,108</u>	<u>16,921,659</u>	<u>7,957,358,310</u>
<b>Liabilities</b>							
Demand deposits	1,635,872,410	-	-	-	-	-	1,635,872,410
Saving deposits	1,562,597,451	-	-	-	-	-	1,562,597,451
Time deposits	360,222,586	242,606,991	983,086,822	1,110,944,141	-	-	2,696,860,540
Interbank deposits	123,029,913	29,579,951	19,982,898	-	-	-	172,592,762
Borrowings	96,067,794	246,342,298	204,629,612	473,927,222	-	-	1,020,966,926
<b>Total liabilities</b>	<u>3,777,790,154</u>	<u>518,529,240</u>	<u>1,207,699,332</u>	<u>1,584,871,363</u>	<u>-</u>	<u>-</u>	<u>7,088,890,089</u>

Management has made estimates of the liquidations of certain monetary assets and liabilities that have no contractual maturity date. The off balance sheet items, such as letters of credit, guarantees, loan commitments, among others, have been fully included in this analysis of liquidity. Based on historical experience, the Management does not expect that all of these commitments will result in disbursements.

The information presented below presents the financial liabilities (excluding accrued interest payable) grouped by maturity based on the undiscounted contractual future flows:

2015	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total gross nominal amount (outflows/inflows)	Carrying value
Demand deposits	1,460,286,295	-	-	-	-	1,460,286,295	1,460,286,295
Saving deposits	1,695,067,154	-	-	-	-	1,695,067,154	1,695,067,154
Time deposits	447,110,497	284,360,447	1,225,987,601	1,267,485,276	-	3,224,943,821	3,055,501,306
Interbank deposits	111,844,363	222,366,140	18,275,445	464,785	-	352,950,733	352,446,537
Borrowings	47,328,209	165,569,768	353,625,102	547,105,569	-	1,113,628,648	1,089,172,067
<b>Total liabilities</b>	<u>3,761,636,518</u>	<u>672,296,355</u>	<u>1,597,888,148</u>	<u>1,815,055,630</u>	<u>-</u>	<u>7,846,876,651</u>	<u>7,652,473,359</u>
Loan commitments	465,433,657	281,787,040	140,246,953	265,480,814	-	1,152,948,464	1,152,948,464
Letters of credit	9,520,225	35,576,845	1,124,636	-	-	46,221,706	46,221,706
Guarantees, endorsements, and others	108,857,363	29,257,399	333,794,121	172,114,007	4,225,938	648,248,828	648,248,828
	<u>583,811,245</u>	<u>346,621,284</u>	<u>475,165,710</u>	<u>437,594,821</u>	<u>4,225,938</u>	<u>1,847,418,998</u>	<u>1,847,418,998</u>

#### 4. Financial Instruments Risk Management (Continued)

##### (b) Liquidity or Financing Risk (continued)

##### Exposure to Liquidity Risk (continued)

2014	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total gross nominal amount (outflows/inflows)	Carrying value
Demand deposits	1,635,872,410	-	-	-	-	1,635,872,410	1,635,872,410
Saving deposits	1,562,597,451	-	-	-	-	1,562,597,451	1,562,597,451
Time deposits	360,687,363	244,090,978	1,004,743,686	1,277,063,030	-	2,886,585,057	2,696,860,540
Interbank deposits	123,037,474	29,225,601	20,742,006	-	-	173,005,081	172,592,762
Borrowings	96,102,978	246,483,964	205,890,690	482,295,334	-	1,030,772,966	1,020,966,926
<b>Total liabilities</b>	<u>3,778,297,676</u>	<u>519,800,543</u>	<u>1,231,376,382</u>	<u>1,759,358,364</u>	<u>-</u>	<u>7,288,832,965</u>	<u>7,088,890,089</u>
Loan commitments	213,827,769	119,181,716	623,092,223	227,766,515	-	1,183,868,223	1,183,868,223
Letters of credit	16,019,148	45,021,760	4,594,427	67,230	-	65,702,565	65,702,565
Guarantees, endorsements and others	154,194,282	24,187,972	375,609,078	253,905,594	4,788,152	812,685,078	812,685,078
	<u>384,041,199</u>	<u>188,391,448</u>	<u>1,003,295,728</u>	<u>481,739,339</u>	<u>4,788,152</u>	<u>2,062,255,866</u>	<u>2,062,255,866</u>

For additional disclosures about commitments and contingencies, see Note 23.

##### (c) Market Risk

Is the risk that the value of a financial asset of the Bank is reduced as a result of changes in interest rates, foreign currency exchange rates, stock prices, and other financial variables, as well as the reaction of market participants to political and economic events that expose the Bank to a latent losses and potential gains. The objective of market risk management is to manage and control market risk exposures, within acceptable parameters, while optimizing the return on risk.

The assessment of market risk is done periodically using the measurements of VaR (Value at Risk) and PVBP (which is a sensitivity affected by interest rates, it is a measure used to describe how a change of one basis point in the rate of interest affects the market value of an instrument) for the Treasury Portfolio; for which, exposure limits are defined, in addition to the monitoring of the maximum loss limits. The review of compliance with these limits is carried out on a daily basis through reports sent to those responsible for monitoring this risk and submitted monthly to Senior Management.

#### 4. Financial Instruments Risk Management (Continued)

(c) *Market Risk (continued)*

Market Risk Management

The following table presents a summary of the calculation of VaR to 10 days for the portfolio of Banistmo, S. A. at the date of the consolidated financial statements which takes into account the interest rate risk and exchange rate risk:

	<b>2015</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
VaR total	<u>2,904,071</u>	<u>3,618,084</u>	<u>4,127,859</u>	<u>2,904,071</u>
	<b>2014</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
VaR total	<u>3,463,904</u>	<u>3,093,132</u>	<u>4,272,895</u>	<u>1,969,050</u>

The Bank uses stress tests on the model to measure the financial impact on several scenarios related to history or hypothetical events.

Following is presented a detailed composition and analysis of each type of market risks:

- *Exchange rate risk*

Is the risk that the value of a financial instrument fluctuates as a consequence of the variations of the foreign currency exchange rates and other financial variables as well as the reaction of the market participants to political and economic events.

In order to control the risk, the Bank uses forward foreign currency contracts negotiated by the Treasury, who is responsible for managing the net position in foreign currency for the different currencies approved by the Bank; and also maximum limits are defined for such positions.

#### 4. Financial Instruments Risk Management (Continued)

(c) *Market Risk (continued)*

- *Exchange rate risk (continued)*

The Bank maintains operations of financial instruments in the consolidated statement of financial position, agreed in foreign currencies, which are presented in their equivalent value in Balboas as follows:

2015	Colon Costa Rica	Peso Mexico	Other Currencies	Total
Cash and deposits in financial institutions	29,771,617	999,284	42,996,320	73,767,221
Securities at fair value through profit or loss	5,381,476	112,115,441	-	117,496,917
Securities available-for-sale	-	-	1,959,718	1,959,718
Accrued interest receivable	716,801	-	617	717,418
Customers' liabilities under acceptances	-	-	6,951,799	6,951,799
<b>Total assets</b>	<u>35,869,894</u>	<u>113,114,725</u>	<u>51,908,454</u>	<u>200,893,073</u>
Deposits received	1,949,850	-	42,298,037	44,247,887
Accrued interest payable	7,745	-	3,466	11,211
Outstanding acceptances	-	-	6,951,799	6,951,799
<b>Total liabilities</b>	<u>1,957,595</u>	<u>-</u>	<u>49,253,302</u>	<u>51,210,897</u>
<b>Net position in the consolidated financial statement</b>	<u>33,912,299</u>	<u>113,114,725</u>	<u>2,655,152</u>	<u>149,682,176</u>
<b>2014</b>	<b>Colon Costa Rica</b>	<b>Peso Mexico</b>	<b>Other Currencies</b>	<b>Total</b>
Cash and deposits in financial institutions	8,326,340	698,759	43,024,363	52,049,462
Securities at fair value through profit or loss	-	172,894,547	-	172,894,547
Securities available-for-sale	-	-	1,955,370	1,955,370
Accrued interest receivable	88,590	-	6,819	95,409
Customers' liabilities under acceptances	-	-	3,043,468	3,043,468
<b>Total assets</b>	<u>8,414,930</u>	<u>173,593,306</u>	<u>48,030,020</u>	<u>230,038,256</u>
Deposits received	8,904,784	-	43,541,834	52,446,618
Accrued interest payable	32,549	-	2,267	34,816
Outstanding acceptances	-	-	3,043,468	3,043,468
<b>Total liabilities</b>	<u>8,937,333</u>	<u>-</u>	<u>46,587,569</u>	<u>55,524,902</u>
<b>Net position in the consolidated financial statement</b>	<u>(522,403)</u>	<u>173,593,306</u>	<u>1,442,451</u>	<u>174,513,354</u>

#### 4. Financial Instruments Risk Management (Continued)

##### (c) Market Risk (continued)

- *Exchange rate risk (continued)*

At December 31, 2015, the column of “Other Currencies” includes: Euros, Yens, Swiss Francs, British Pounds, Canadian Dollars, Swedish Crowns, Danish Crowns, Norwegian Crowns, Guatemalan Quetzals, Australian Dollars, Hong Kong Dollars, Singapore Dollars, Dominican Peso, Nicaraguan Cordoba, Offshore Yuan (China), Yuan Renminbi (China) and Colombian Pesos.

- *Risk of the cash flow interest rate and the fair value*

The interest rate risk of the cash flow and the interest rate risk of the 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 following table summarizes the Bank’s exposure to interest rate risks. The financial assets and liabilities (excluding accrued interest receivable and payable) of the Bank are included in the table at their carrying value, classified by categories based on the earlier of contractual repricing rate or maturity dates:

2015	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
<b>Assets</b>						
Time deposits in banks	225,157,756	107,519,125	43,996,124	-	-	376,673,005
Loans, net	306,688,058	397,722,838	1,011,311,685	1,929,481,149	3,081,374,125	6,726,577,855
Investment securities	50,513,632	76,938,156	62,503,145	484,117,567	175,935,753	850,008,253
<b>Total assets</b>	<u>582,359,446</u>	<u>582,180,119</u>	<u>1,117,810,954</u>	<u>2,413,598,716</u>	<u>3,257,309,878</u>	<u>7,953,259,113</u>
<b>Liabilities</b>						
Demand deposits	1,460,286,295	-	-	-	-	1,460,286,295
Saving deposits	1,695,067,154	-	-	-	-	1,695,067,154
Time deposits	446,774,452	283,076,830	1,203,259,916	1,122,390,108	-	3,055,501,306
Interbank deposits	111,831,604	222,150,091	18,014,842	450,000	-	352,446,537
Borrowings	57,393,238	151,747,359	352,531,470	527,500,000	-	1,089,172,067
<b>Total liabilities</b>	<u>3,771,352,743</u>	<u>656,974,280</u>	<u>1,573,806,228</u>	<u>1,650,340,108</u>	<u>-</u>	<u>7,652,473,359</u>
<b>Total sensibility interest rate</b>	<u>(3,188,993,297)</u>	<u>(74,794,161)</u>	<u>(455,995,274)</u>	<u>763,258,608</u>	<u>3,257,309,878</u>	<u>300,785,754</u>

#### 4. Financial Instruments Risk Management (Continued)

(c) *Market Risk (continued)*

- *Risk of the cash flow interest rate and the fair value (continued)*

2014	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
<b>Assets</b>						
Time deposits in banks	179,570,890	110,835,794	9,445,305	-	-	299,851,989
Loans, net	805,766,959	1,130,118,560	1,452,128,673	399,360,625	2,397,900,434	6,185,275,251
Investment securities	<u>187,923,262</u>	<u>235,583,100</u>	<u>227,970,830</u>	<u>36,347,529</u>	<u>50,883,554</u>	<u>738,708,275</u>
<b>Total assets</b>	<u>1,173,261,111</u>	<u>1,476,537,454</u>	<u>1,689,544,808</u>	<u>435,708,154</u>	<u>2,448,783,988</u>	<u>7,223,835,515</u>
<b>Liabilities</b>						
Demand deposits	1,635,872,410	-	-	-	-	1,635,872,410
Saving deposits	1,562,597,451	-	-	-	-	1,562,597,451
Time deposits	360,222,586	242,606,991	983,086,823	1,110,944,140	-	2,696,860,540
Interbank deposits	123,029,913	29,579,951	19,982,898	-	-	172,592,762
Borrowings	<u>96,067,794</u>	<u>246,342,298</u>	<u>204,629,612</u>	<u>473,927,222</u>	-	<u>1,020,966,926</u>
<b>Total liabilities</b>	<u>3,777,790,154</u>	<u>518,529,240</u>	<u>1,207,699,333</u>	<u>1,584,871,362</u>	-	<u>7,088,890,089</u>
<b>Total sensitivity interest rate</b>	<u>(2,604,529,043)</u>	<u>958,008,214</u>	<u>481,845,475</u>	<u>(1,149,163,208)</u>	<u>2,448,783,988</u>	<u>134,945,426</u>

At December 31, 2015, the range of annual interest rates of the customers' term deposits is from 0.20% to 6.00% (2014: 0.20% to 6.50%).

The Bank has defined a range of limits to monitor the sensitivity of financial assets and liabilities in order to control de interest rate risk. The estimated impact of change of interest by category, is performed under the assumption of the increase or decrease of 100 basis points (bps) on financial assets and liabilities. The table presented below reflects the impact of changes in the interest rate:

	2015 100pb of increase	2015 100pb of decrease
Investments	(17,185,555)	17,185,555
Interbank deposits and loans	851,797	(851,797)
Loans	(67,272,971)	67,272,971
Customers' deposits	59,624,190	(59,624,190)
Derivative financial instruments	<u>504,111</u>	<u>(504,111)</u>
	<u>(23,478,428)</u>	<u>23,478,428</u>

#### 4. Financial Instruments Risk Management (Continued)

(c) *Market Risk (continued)*

- *Risk of the cash flow interest rate and the fair value (continued)*

	2014	2014
	100pb of increase	100pb of decrease
Investments	(14,075,967)	14,075,967
Interbank deposits and loans	1,714,043	(1,714,043)
Loans	(50,990,843)	50,990,843
Customers' deposits	53,159,000	(53,159,000)
Derivative financial instruments	<u>(21,700)</u>	<u>21,700</u>
	<u>(10,215,467)</u>	<u>10,215,467</u>

- *Price risk*

Is the risk that the value of a financial instrument fluctuates as a consequence of the changes in market prices, independently if they are caused by specific factors relative to the particular instrument or its issuer, or to factors that affect all negotiable instruments in the market.

The Bank is exposed to the price risk of the equity instruments classified as securities available-for-sale or as securities at fair value through in profit or loss. To mitigate the price risk derived from the investments in equity instruments, the Bank diversifies its portfolio as per the established limits.

(d) *Operational Risk*

Operational risk is the possibility of incurring losses due to deficiencies, failures or inadequacies of human resources, processes, technology, infrastructure or the occurrence of external events. This definition includes legal risk associated with such factors. Within this definition, the technology of information is established as a risk factor or category, which by its nature must be managed in a specialized way. For purposes of the Bank, the definition of operational risk also includes legal and reputational risk when they are associated to the previously mentioned factors.

#### **4. Financial Instruments Risk Management (Continued)**

*(d) Operational Risk (continued)*

The management of the Bank's Operational Risk relies on the development of strategies for the management and implementation of policies, methodologies and tools for administration; with each of these elements designed to support the Bank in the development of its strategic plans, providing risk analysis and routing decisions to fulfill the objectives through proper management of risks. Additionally, it provides a comprehensive framework to ensure that the Bank considers and effectively manages operational risk, so that operating losses within acceptable levels are maintained and are protected against operational loss events that are foreseeable in the future.

The management of the operational risk comprises the phases of identifying, measuring, monitoring, mitigating, controlling and informing; as well as keeping the losses within the acceptable levels and protecting the entity from future losses.

Process owners of all business lines and functional areas are responsible for the design and implementation of controls to mitigate operational risk and to monitor and demonstrate the effectiveness of controls that are operating within their daily processes.

Adequate internal control levels may be determined by reference to the scale and nature of each business operation, but must remain in compliance with the minimum standards established by the entity.

The framework for operational risk management includes the following responsibilities:

- Assigning responsibility at all levels and under a model of three lines of defense for operational risk management and maintaining an appropriate internal control environment under the supervision of a formal governance structure.
- Identification, measurement and assessment of operational risks and controls in sub-processes, products, channels, technology components, suppliers and particular cases of business through operational risk assessment.
- Scaling operational events (potential losses, quasi losses) and identification and reporting of incidents and report of aggregate operating losses.

#### 4. Financial Instruments Risk Management (Continued)

##### *(d) Operational Risk (continued)*

Monitoring key risk indicators - continuous monitoring of operational risk indicators established by lines of business and support functions for major risks and monitoring to be controlled within the tolerance limits established by the Management.

Additionally within the Operational Risk Unit, Management of the Business Continuity Unit is included whose objective focuses on ensuring the integrity of people and the image of the Bank, in compliance with local regulations and guaranteeing customers, shareholders and strategic partners in terms of contingency (interruption or instability in the operation) the Bank is able to provide an effective response, organized to continue the service and critical operations, through the definition, implementation and administration of the program Business Continuity.

Within the scope of management of the Business Continuity Unit, it is established the responsibility for all areas to participate in the Business Continuity program being responsible for designing, updating, implementation and testing of recovery strategies is established; taking into account risks to business, business impact analysis (BIA), resource requirements and effective communication.

The policy framework of the Business Continuity Unit defines four fronts as pillars of its management being such fronts: technology, infrastructure, operations and people.

##### *(e) Capital Management*

The Bank's regulators, the Superintendency of Banks of Panama and the Securities Market Superintendency, require the Bank to maintain an indicator of total capital measured against risk-based average assets.

The Bank analyzes its regulatory capital considering the following two tiers, in conformity with management's interpretation of the Basel Accord which is included in the standards of the Superintendency of Banks of Panama Agreement 5-2008 of October 1, 2008, for General License Banks; which prescribes the following:

- *Primary Capital (Tier 1)*: It includes the paid-in share capital, declared reserves, retained earnings and the shares representing the non-controlling equity accounts of consolidating subsidiaries' capital accounts.

#### 4. Financial Instruments Risk Management (Continued)

(e) *Capital Management (continued)*

- *Primary Capital (Tier 1): (continued)*

The declared reserves are those identified by the Bank as Capital Reserve to strengthen its financial position, arising from retained earnings in its books and subject to the provisions of Article 69 of the Banking Law.

The retained earnings are the non-distributed profits or accumulated deficit of the current period and prior periods.

Similarly, the dynamic reserve is part of regulatory capital, only if it does not replace or offset the capital adequacy requirements established by the Agreement 5-2008; this is set in the Agreement 4-2013 of May 28, 2013.

- *Secondary Capital (Tier 2):* It includes general reserves for losses, undeclared reserves and revaluation reserves. The sum of the items counted as secondary capital is limited to a maximum of 100% of the sum of the primary capital.

The calculation of the amount of Capital Funds of a Bank with a General License has to take into consideration the deductions, which will take place quarterly, and that are shown as follows:

- The non-consolidated capital assigned to branches abroad.
- The paid capital not consolidated of subsidiaries of the Bank.
- The paid capital of non-banking subsidiaries. The deduction will include the recorded balances on the asset for the greater of either the amount paid or the accounting value on the permanent investment of the entities in the country and abroad.
- Items of assets corresponding to expenses or other accounts that in virtue of the generally accepted accounting principles and the International Financial Reporting Standards correspond to valuations or various forms of unrecognized losses as well as incurred losses during any time of the period.

#### 4. Financial Instruments Risk Management (Continued)

(e) *Capital Management (continued)*

- *Secondary Capital (Tier 2): (continued)*

The reserves that have to be maintained in relation to what is indicated on the secondary capital, are composed as follows:

- *General reserves for losses:*

Provisions that have not been required to the Banks with General License by legislations, regulations, or the Superintendency of Banks of Panama or such, that exceed those required by the Superintendency of Banks of Panama, the regulations or legislations. The general reserves are not intended to cover risks that can be presented in the assets, nor do they correspond to real or contingent payment obligations. They do not have a specific purpose. The general reserves can only be computed as secondary capital up to an amount equivalent to 1.25% of the weighted assets in function of their risks.

Once the general reserves are computed as part of the secondary capital, the banks cannot reduce them if by doing so they infringe the adequacy ratio established in Article 69 of Law Decree 2 of 2008 or the other margins and legal limits or established regulatory requirements with respect to Capital Funds.

- *Non-declared reserves*

They consist in part of the retained earnings after taxes, as long as they are of the same quality of the declared reserves. As such, they are immediately and completely stated to be available to absorb unforeseen future losses and are not taxed for any obligation. However, in contrast to the declared reserves, these do not have a specific purpose and are left to be recorded in a special reserve account.

- *Revaluation reserves*

It relates to those that result from the revaluation of securities available-for-sale to be recorded at their market value. It is not permitted to include in this item those securities received as payment of credit obligations by the banks during the ordinary course of operations.

The sum of the computed elements as secondary capital will be limited to a maximum of 100% of the sum of the primary capital elements.

#### 4. Financial Instruments Risk Management (Continued)

(e) *Capital Management (continued)*

- *Secondary Capital (Tier 2): (continued)*

The Capital Funds of a bank with a General License cannot be less than 8% of its weighted assets in function of its risks. For these purposes, the assets have to be considered net of their respective provisions or reserves and with the indicated weights on Agreement 5-2008 of the Superintendency of Banks of Panama.

The applicable capital standards for credit risk to banks were established within the Agreement 5-2008, which was amended in Article 4 by the Agreement 4-2009.

In the case of branches and subsidiaries of Panamanian banks with a General License, the banks should comply with the adequacy ratio on a consolidated basis, including its branches and consolidating banking subsidiaries.

The Bank's policies are to ensure a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business within the market and to sustain the levels of required shareholder's return and recognizing the need to maintain a balance between the placed investments and transactions, and the adequacy of capital required by the regulators.

The general resolution SBP GDJ 0003 2013 established that the regulatory reserve must not be considered as capital funding for the calculation of the capital adequacy ratio.

#### 4. Financial Instruments Risk Management (Continued)

(e) *Capital Management (continued)*

- *Secondary Capital (Tier 2): (continued)*

The Bank maintains a regulatory capital position which is composed as follows, in the context of the financial statements taken as a whole, as reported to the Superintendency of Banks of Panama for the year ended December 31, 2015:

	2015	2014
<b>Primary Capital (Tier 1)</b>		
Common shares	755,069,973	622,491,973
Preferred shares	-	147,151,800
Retained earnings (accumulated deficit)	101,460,076	(15,007,642)
Complementary tax	(6,361,542)	(4,603,291)
Dynamic equity reserve	88,525,106	73,717,784
Capital reserve	-	2,500,000
Less:		
Goodwill (Note 17)	<u>61,193,018</u>	<u>66,739,678</u>
Total	<u>877,500,595</u>	<u>759,510,946</u>
 <b>Secondary Capital (Tier 2)</b>	 <u>-</u>	 <u>-</u>
Total regulatory capital	<u>877,500,595</u>	<u>759,510,946</u>
Total risk based weighted assets	<u>6,164,931,057</u>	<u>5,592,447,317</u>
 <b>Capital Ratios</b>		
Total regulatory capital expressed as a percentage of risk based weighted assets	<u>14.2%</u>	<u>13.6%</u>
Total Tier 1 total expressed as a percentage of risk based weighted assets	<u>14.2%</u>	<u>13.6%</u>

#### Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated, based on their primary activities, is part of the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexible to reflect different risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum capital required for regulatory purposes.

#### **4. Financial Instruments Risk Management (Continued)**

##### *(e) Capital Management (continued)*

###### Capital Allocation (continued)

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank's Risk and Credit groups, and is subject to review by the Management of Assets, Liabilities and Equity Committee.

In addition, maximization of the return on risk-adjusted capital is the main criterion used in determining how capital is allocated within the Bank to particular operations or activities, and how associated decisions are taken in regards to the management of resources and the achievement of strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors and Bank's Management.

#### **5. Critical Accounting Estimates and Judgments in Applying Accounting Policies**

The Bank's management in the preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards has made judgement, estimates and assumptions, which affect the application of accounting policies and the amounts reported of the assets, liabilities, income and expenses during the period. Therefore, the estimations and decisions are continuously evaluated and are based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank's management assesses the selection, disclosure and application of estimation of greater uncertainty in critical accounting policies. Information regarding the assumptions and estimates that affect the reported amounts of assets and liabilities within the following fiscal period and the critical judgments in the selection and application of the accounting policies are described below:

##### *(a) Losses on Loans Impairment*

The Bank reviews its loan portfolio to evaluate impairment at least on a quarterly basis. The Bank makes decisions to record an impairment loss in the consolidated statement of results, based on the evidence that indicates that impairment exists that can be measured in the estimated future cash flows of a loan portfolio, before the impairment can be identified in an individual loan in the portfolio. This evidence includes observable information that indicates that there has been an adverse change in the payment condition of the borrower in a group, or national and local economic conditions that correlate to defaults in the group's assets.

## 5. Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

### (a) *Losses on Loans Impairment (continued)*

The Administration determines estimates based on the experience of historical losses by assets with credit risk characteristics and objective evidence of similar deterioration to those in the portfolio when its future cash flows are programmed. The methodology and assumptions used to estimate the amount and the time of the future cash flows are reviewed regularly to reduce any difference between the loss estimates and the current loss experience.

### (b) *Fair Value of Financial Instruments*

The fair values of the financial instruments that are not quoted in the active markets are determined using valuation techniques with reference to observable data. When the valuation techniques (for example, models), are used to determine the fair value, they are validated and approved by the respective authority. All the models are evaluated and adjusted before being used, and the models are calibrated to assure that the results reflect the present information and comparative prices of the market.

### (c) *Impairment of Investments in Securities Classified as Available-for-Sale*

The Bank determines that securities investments available-for-sale are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires a decision. In addition, the impairment can be appropriate when evidence of impairment exists in the financial condition of the issuer, performance of the sector or industry, changes in technology and financial and operative cash flows.

### (d) *Income Tax*

Determining the provision for income taxes requires significant estimates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. In the event of a tax audit, the Bank recognizes anticipated obligations based on estimates of taxes that will be adequate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 6. Segment Information

The Bank's operations include support services and support from its Parent Company. The cost of these functions are distributed to the various lines of business under systematic and consistent basis, where appropriate. In addition, revenues and expenses generated by these segments that interact with each other in the normal course of operations and have a financial impact on its results, are considered in this distribution, which form an integral part of the Bank.

Segment information is presented for the Bank's line of business as follows:

- **Personal Banking and SMEs**  
This line of business provides products and services focused to meet the financial needs of individuals and companies. Individuals are served through four segments: People, Plus, Preferred, and Private; on the other hand, corporate clients are segmented into: small SMEs, SMEs and large SMEs. The products offered by this line include: checking and saving accounts; time deposits; consumer loans, auto and home mortgage; leasing and commercial loans.
- **Corporate Banking and Government**  
This line of business is responsible for addressing local and international corporates, as well as the Panamanian Government and public sector institutions. Corporate Banking and Government offers integrated services banking platform for a variety of commercial loans, deposits and cash management services, letters of credit and leasing; and investment banking and trust services.

The composition of business segments is presented as follows:

	2015 (in thousands of Balboas)		
	Personal Banking and SMEs	Corporate Banking and Government	Total
Interest and commission income	344,881	67,888	412,769
Interest expense and provisions	218,808	(43,498)	175,310
Other income	12,906	34,049	46,955
General and administrative expenses	<u>127,352</u>	<u>72,039</u>	<u>199,391</u>
Net income before income tax	<u>11,627</u>	<u>73,396</u>	<u>85,023</u>
Income for the year from discontinued operations, net of income tax	<u>24,728</u>	<u>-</u>	<u>24,728</u>
Total assets	<u>3,673,249</u>	<u>5,247,676</u>	<u>8,920,925</u>
Total liabilities	<u>4,196,453</u>	<u>3,776,704</u>	<u>7,973,157</u>

## 6. Segment Information (Continued)

	<b>2014 (in thousands of Balboas)</b>		
	<b>Personal Banking and SMEs</b>	<b>Corporate Banking and Government</b>	<b>Total</b>
Interest and commission income	328,029	57,637	385,666
Interest expense and provisions	202,757	(35,189)	167,568
Other income	31,273	18,618	49,891
General and administrative expenses	<u>122,806</u>	<u>67,421</u>	<u>190,227</u>
Net income before income tax	<u>33,739</u>	<u>44,023</u>	<u>77,762</u>
Income for the year from discontinued operations, net of income tax	<u>15,478</u>	<u>-</u>	<u>15,478</u>
Total assets	<u>3,477,352</u>	<u>4,834,868</u>	<u>8,312,220</u>
Total liabilities	<u>4,327,578</u>	<u>3,106,859</u>	<u>7,434,437</u>

## 7. Fees, Other Commissions and Other Income

The detail of fees, other commissions, and other income is presented as follows:

	<b>2015</b>	<b>2014</b>
Fees and other commissions on:		
Transfers	20,969	25,835
Trusts management	1,159,117	1,022,956
Custody	65,168	105,729
Letters of credit and documentary collections	7,181,269	9,361,789
Debit and credit cards	50,309,342	48,052,326
Banking services	19,324,726	19,875,722
Others	<u>2,577,522</u>	<u>894,575</u>
	<u>80,638,113</u>	<u>79,338,932</u>
Other net income:		
Banking services	59,580	59,655
Recoveries	-	12,040
Gain on sale of foreclosed assets	2,434,322	1,698,399
Gain (loss) on sale of fixed assets	49,321	(245,036)
Other income	<u>2,133,996</u>	<u>5,936,390</u>
	<u>4,677,219</u>	<u>7,461,448</u>

## 8. Net Loss in Securities and Derivatives

The net loss in securities and derivatives, included in the consolidated income statement, is presented as follows:

	<b>2015</b>	<b>2014</b>
Loss on derivative contracts	(5,673,716)	(6,629,172)
Net gain in securities at fair value	236,446	435,010
Net unrealized (loss) gain on securities at fair value through profit or loss (Note 13)	(60,565)	424,816
Net realized gain on securities available-for-sale (Note 13)	2,262,916	2,747,829
Gain in currency conversion	1,417	36,550
Net loss in foreign exchange currency	(13,353)	(11,557)
Dividends over investment available-for-sale	<u>1,359,001</u>	<u>914,539</u>
	<u>(1,887,854)</u>	<u>(2,081,985)</u>

## 9. Expenses and Other Provisions

The detail of other provisions, commissions, salaries and other personnel expense and other expenses is as follows:

	<b>2015</b>	<b>2014</b>
Provision for (reversal of provision) litigations	69,348	(158,493)
Provision for (reversal of provision) foreclosed assets	<u>83,467</u>	<u>(424,557)</u>
	<u>152,815</u>	<u>(583,050)</u>
Commissions expense:		
Brokerage commissions	44,990	87,804
Credit cards	33,609,607	31,922,929
Banking correspondent services	327,206	596,090
Other commissions	<u>2,490,665</u>	<u>2,220,191</u>
	<u>36,472,468</u>	<u>34,827,014</u>

## 9. Expenses and Other Provisions (Continued)

	2015	2014
Salaries and other personnel costs:		
Salaries	55,962,946	58,143,837
Labor benefits	7,380,552	7,191,842
Employees' benefits	8,673,169	8,172,548
Seniority premium and compensation	4,286,271	4,349,280
Training	944,743	1,163,601
Others	<u>891,161</u>	<u>702,989</u>
	<u>78,138,842</u>	<u>79,724,097</u>
Other expenses:		
Insurance	1,139,170	1,435,197
Stationary and office supplies	2,093,288	1,665,935
Electricity and communications	8,536,748	7,808,526
Cleaning and maintenance	7,183,295	6,000,921
Taxes other than income	8,193,090	7,259,817
Transportation	652,802	874,050
Cash transportation	1,382,494	584,559
Security	2,837,465	2,279,577
Business travel and meetings	1,017,703	1,109,093
Technology support	19,042,521	14,861,393
Others	<u>14,928,082</u>	<u>13,488,562</u>
	<u>67,006,658</u>	<u>57,367,630</u>

## 10. Taxes

The income tax returns of the Bank and its subsidiaries are subject to examination by the local tax authorities for the last three (3) years, including the year ended December 31, 2015, in accordance with current tax regulations.

In accordance with current tax regulations, companies incorporated in Panama are exempt from income taxes on profits derived from foreign operations, interest earned on deposits with banks operating in Panama, and investment securities issued by the Government of Panama and the securities listed by the Securities Market Superintendency and traded through the Panama Stock Exchange.

By Official Gazette No.26489-A, Law No.8 was published on March 15, 2010 which amends the income tax rates. For financial institutions and subsidiaries, the current interest tax rate is 25% since January 1, 2014.

## **10. Taxes (Continued)**

The Law No.52 as of August 28, 2012 reinstated the payment of the estimated income tax from September 2012. According to that law, the estimated income tax should be paid in three equal amounts during the months of June, September and December of each year.

The Law No.8 of March 15, 2010 introduced the method of presumptive taxation stating that legal entities which earn income in excess of one million five hundred thousand dollars (B/.1,500,000) must determine its taxable base in an amount whichever is greater of: (a) the net taxable income calculated by the ordinary method established in the Tax Code and (b) the net taxable income resulting from applying four point sixty-seven percent (4.67%) to the total taxable income.

Legal entities that incur in losses due to the presumptive income tax method or, if its effective rate when applying the presumptive method exceeds the tax rate applicable to net taxable income under the ordinary method for the fiscal period, may request to the Fiscal Authority an authorization to calculate the tax under the ordinary method.

The Law No.33 of June 30, 2010, amended by Law No.52 of August 28, 2012, added Chapter IX to Title I of Book Fourth of the Tax Code, denominated Adequacy Standards to the Treaties or Agreement for the Avoidance of Double International Taxation, establishing the regime of transfer pricing applicable to the taxpayer that perform transactions with related parties abroad. These taxpayers must determine their income, cost and deductions for tax purposes in their tax returns, based on the price or amount that independent parties would have agreed upon under similar circumstances in conditions of free competition, using the methods set out in the referred Act 33.

This law establishes the obligation to present information of transactions with related parties (Report 930 within six months after the end of the corresponding fiscal year, as well as to have, at time of submission of report, with a transfer pricing study that supports the statement by the report 930). This study should be provided at the request of the Fiscal Authority, within 45 days counted from the notification of the requirement. The failure to file the information return will result in a penalty equal to one (1%) of the total value of transactions carried out with related parties.

## 10. Taxes (Continued)

As disclosed in Note 25 to these financial statements, the Bank entered into transactions with related parties. Since fiscal year 2012, the Bank is obligated to comply with the report even if its related parties are residents of countries with which the Republic of Panama has not signed these agreements.

The detail of the income tax expense on continuing operations is as follows:

	<b>2015</b>	<b>2014</b>
Income tax:		
Current period	17,063,621	17,933,916
Prior-period adjustments	4,644	(789,159)
Deferred income tax for temporary differences	<u>(2,041,757)</u>	<u>(670,365)</u>
	<u>15,026,508</u>	<u>16,474,392</u>

Based on the actual and projected results, Management of the Bank and its subsidiaries considers that there will be sufficient taxable income to absorb the deferred taxes that are described in the consolidated statement of financial position.

The reconciliation of financial income before income tax and the current income tax from continuing operations is as follows:

	<b>2015</b>	<b>2014</b>
Net income before income tax, including participation in equity in associate	85,023,104	77,810,864
Foreign earnings, exempt and non-taxable, net	(103,121,293)	(67,539,457)
Non-deductible costs and expenses	<u>86,052,584</u>	<u>60,894,392</u>
Net taxable income	<u>67,954,395</u>	<u>71,165,799</u>
Income tax at national rate	16,988,599	17,791,450
Effects from the application of different local tax rates	<u>75,022</u>	<u>142,466</u>
Current income tax	<u>17,063,621</u>	<u>17,933,916</u>

## 10. Taxes (Continued)

Effective income tax rate:

	2015	2014
Net income before income tax, including participation in equity in associate	85,023,104	77,810,864
Income tax expense	<u>15,026,508</u>	<u>16,474,392</u>
Effective income tax rate	<u>17.67%</u>	<u>21.17%</u>

The deferred income tax asset is detailed as follows:

	2015	2014
Reserve for loan losses	16,578,932	15,584,213
Provision for credit card awards and litigations	1,769,007	1,805,103
Provision for other accounts receivable	937,500	-
Various insurance reserves	-	52,018
Liability for intangible assets	<u>-</u>	<u>(50,841)</u>
	<u>19,285,439</u>	<u>17,390,493</u>

Management made its estimates of deferred income tax asset, based on the tax rate in force according to the tax legislation.

The conciliation of deferred income tax asset for the previous year with the current year is as follows:

	2015				2014			
	Beginning balance	Recognition in results	Discontinued operations	Final balance	Beginning balance	Recognition in results	Discontinued operations	Final balance
Reserve for loan losses	15,584,213	994,719	-	16,578,932	14,761,271	822,942	-	15,584,213
Provision for credit card awards and litigations	1,805,103	58,697	(94,793)	1,769,007	1,982,173	(152,577)	(24,493)	1,805,103
Provisions for other accounts receivable	-	937,500	-	937,500	-	-	-	-
Deferred commissions	-	-	-	-	(693,829)	-	693,829	-
Unearned premium reserve	-	-	-	-	(278,524)	-	278,524	-
Various insurance reserves	52,018	-	(52,018)	-	166,230	-	(114,212)	52,018
Liability for intangible assets	<u>(50,841)</u>	<u>50,841</u>	<u>-</u>	<u>-</u>	<u>(50,841)</u>	<u>-</u>	<u>-</u>	<u>(50,841)</u>
	<u>17,390,493</u>	<u>2,041,757</u>	<u>(146,811)</u>	<u>19,285,439</u>	<u>15,886,480</u>	<u>670,365</u>	<u>833,648</u>	<u>17,390,493</u>

## 11. Net Income per Share

The calculation of basic earnings per share is based on the net profit attributable to common shareholders and the weighted average number of common shares outstanding during the period. The following table shows the calculation of earnings per share:

	2015	2014
<b>Calculation of basic net income per share</b>		
Net consolidated income attributable to majority shareholders	94,725,025	76,814,666
Less dividends paid - preferred shares	<u>(2,861,287)</u>	<u>(11,604,094)</u>
Net income attributable to common shareholders	<u>91,863,738</u>	<u>65,210,572</u>
Average number of common shares (Note 21)	<u>11,325,781</u>	<u>10,000,001</u>
Basic net income per share	<u>8.11</u>	<u>6.52</u>

## 12. Cash and Cash Equivalents

The cash and cash equivalents (excluding accrued interest receivable) are detailed as follows for purposes of reconciliation with the consolidated statement of cash flows:

	2015	2014
Cash and cash equivalents	224,237,933	122,988,552
Demand deposits	344,962,147	593,612,584
Time deposits with original maturities of three months or less	<u>332,676,881</u>	<u>290,406,684</u>
<b>Cash and cash equivalents in the consolidated statement of cash flows</b>	901,876,961	1,007,007,820
Time deposits with original maturities of more than three months	<u>43,996,124</u>	<u>9,445,305</u>
<b>Total cash, cash effects and deposits</b>	<u>945,873,085</u>	<u>1,016,453,125</u>

## 12. Cash and Cash Equivalents (Continued)

At December 31, 2015, the annual interest rate for time deposits ranged from 1.69% and 7.50% (2014: 1.13% to 7.39%).

At December 31, 2015, deposits in foreign banks for B/.10,730,000 were restricted as collateral of derivative instruments of interest rate swap and forward operations with currencies with those counterparts where Margin Call clauses exist.

## 13. Investment Securities

The investment securities (excluding accrued interest receivable) are summarized as follows:

### Securities at Fair Value through Profit or Loss

	2015		2014	
	Fair Value	Original Cost	Fair Value	Original Cost
Treasury letters	-	-	172,894,547	172,242,024
Corporate bonds	32,572,294	32,908,598	5,653,497	5,668,900
Republic of Mexico bonds	115,626,596	115,338,022	-	-
United States of America bonds	7,913,520	7,944,805	-	-
Republic of Panama bonds	15,624,204	15,732,443	15,014,651	15,099,903
Republic of Costa Rica bonds	26,126,598	26,009,752	18,818,517	18,935,595
Republic of Colombia bonds	-	-	<u>2,219,000</u>	<u>2,270,200</u>
	<u>197,863,212</u>	<u>197,933,620</u>	<u>214,600,212</u>	<u>214,216,622</u>

During the year ended December 31, 2015, a loss was recognized on securities at fair value through profit or loss for B/.60,565 (2014: gain for B/.424,816) in the consolidated statement of income and is presented under the heading of net loss in securities and derivatives (see Note 8).

The fair values for the securities portfolio are determined by the publicly quoted prices of the shares or bonds published in stock-exchanges and electronic systems of securities information.

### 13. Investment Securities (Continued)

#### Securities Available-for-Sale at Fair Value

	2015	2014
Corporate bonds	-	13,418,521
Republic of Panama bonds	269,853,483	320,678,297
Republic of Colombia bonds	43,176,280	33,290,765
Republic of Mexico bonds	35,607,758	11,525,448
United States of America bonds	128,162,490	34,853,125
Certificate of Participation (CERPAN)	83,345,030	110,341,907
Equity shares	<u>14,234,121</u>	<u>16,921,659</u>
	<u>574,379,162</u>	<u>541,029,722</u>

The movement of the investment available for sale (excludes accumulated interest receivable) is presented as follows:

	2015	2014
Beginning balance	541,029,722	559,268,483
Additions	336,717,500	325,969,000
Sales and redemptions	(224,588,515)	(347,031,536)
Gain on sale of investment securities	3,102,480	4,387,400
Premium and discount	(2,420,325)	(2,221,335)
Reserve for impairment	(399,643)	-
Net change in fair value	(9,115,135)	657,710
Reclassified portion to assets classified as held for sale (Note 28)	<u>(69,946,922)</u>	<u>-</u>
Ending balance	<u>574,379,162</u>	<u>541,029,722</u>

Sales operations during 2015 generated a gain of B/.2,262,916 (2014: B/.2,747,829) in the consolidated statement of income and is shown under net loss on securities and derivatives caption (see Note 8).

During the year ended December 31, 2015, a gain was recognized by the effect of the hedging activities amounted to B/.1,974,448 (2014: B/.986,824) representing the portion of the unrealized gain or loss attributable to the hedged risk in those values for derivatives designated to fair value hedges. That effect is presented in the results of period in the net loss on securities and derivatives caption.

The Negotiable Certificates of Participation (CERPANES), with a par value of B/.35,047,246 (2014: B/.40,403,347) and a fair value of B/.74,630,149 (2014: B/.83,167,663) guarantee the loan payable to Citibank, N. A. of B/.54,000,000 (see Note 19).

### 13. Investment Securities (Continued)

At December 31, 2015, the Bank holds equity shares for an amount of B/.6,322,762 (2014: B/.6,358,763), which are recorded at their acquisition cost due to the inability to determine a reliable fair value. The Bank conducts annual reviews to assess that the values of these investments have not suffered a permanent impairment in which there is a need to adjust the value of the investment. The equity shares which are held at cost are not part of an active market, and the Bank plans to keep them on their books.

The net change in the valuation of investments available-for-sale, from continuing operations during the year was B/.4,742,457 (2014: B/.3,405,539), which was recorded in the fair value reserve in the consolidated statement of comprehensive income.

The annual interest rates from securities available-for-sale range among 2.51% and 11.50% (2014: 2.63% and 7.59%).

#### Securities Held-to-Maturity

	2015	2014
Corporate bonds	<u>92,000,000</u>	<u>-</u>

The Bank holds corporate and government bonds in the amount of B/.7,000,000 (2014: B/.7,140,000) with anticipated redemption options by the issuer of maturities between one and twelve months.

At December 31, 2015, the Bank's portfolio consists in 59.1% of short and long-term government bonds of local and foreign markets, and certificates of participation (CERPAN); 30.7% in certificates of time deposits and 10.2% in corporate bonds. An increase in the portfolio is presented compared to 2014 of 18.2%, mainly in time deposits and investments in local and abroad private debt instruments. On government bonds 44.5% comprises debt instruments of the Republic of Panama, 23.6% in CETES of the Republic of Mexico; 6.7% in debt instruments of the Republic of Colombia, 21.1% in Bonds of United States and 4.1% in Bonds of the Republic of Costa Rica.

Local government bonds portfolio of the Bank such as Treasury Notes and the Republic of Panama Bonds are characterized by maintaining good grade of liquidity because they are part of the "market makers."

## 14. Loans

The composition of the loan portfolio (excluding accrued interest receivable) is summarized as follows:

	2015			2014		
	Internal	External	Total	Internal	External	Total
Commercial and industrial	2,095,851,176	369,720,694	2,465,571,870	1,862,214,790	423,284,873	2,285,499,663
Personal	872,953,925	-	872,953,925	808,287,036	6,740	808,293,776
Residential mortgages	1,859,284,045	-	1,859,284,045	1,629,075,117	-	1,629,075,117
Agricultural	113,343,888	92,919,849	206,263,737	104,889,645	106,569,328	211,458,973
Construction	872,194,415	4,617,638	876,812,053	858,187,145	6,032,663	864,219,808
Credit cards	188,848,437	-	188,848,437	168,388,108	-	168,388,108
Cooperatives	3,471,112	-	3,471,112	2,484,665	-	2,484,665
Financial institutions	19,180,468	-	19,180,468	16,604,192	-	16,604,192
Vehicles	181,300,127	-	181,300,127	156,421,799	-	156,421,799
Government	80,296,159	-	80,296,159	108,698,176	-	108,698,176
Finance leases	<u>112,559,030</u>	<u>-</u>	<u>112,559,030</u>	<u>58,853,774</u>	<u>-</u>	<u>58,853,774</u>
	<u>6,399,282,782</u>	<u>467,258,181</u>	<u>6,866,540,963</u>	<u>5,774,104,447</u>	<u>535,893,604</u>	<u>6,309,998,051</u>

At December 31, 2015, the annual interest rates on loans range among 6.31% and 30.00% (2014: 7.15% and 30.00%).

The classification of the credit portfolio (excluding accrued interest receivable) by type of interest rate is detailed as follows:

	2015	2014
Fixed rate	1,928,250,511	1,548,151,374
Variable rate	<u>4,938,290,452</u>	<u>4,761,846,677</u>
	<u>6,866,540,963</u>	<u>6,309,998,051</u>

Loans of B/.432,763,887 (2014: B/.419,311,255) were guaranteed with time deposits and saving accounts.

The movement of the allowance for loan losses impairment, corresponding to continuing operations, is as follows:

	2015	2014
Beginning balance	62,475,656	59,227,245
Provision for the year	39,961,527	38,881,305
Loans charged off	(47,666,143)	(46,216,539)
Recoveries	<u>11,544,691</u>	<u>10,583,645</u>
Ending balance	<u>66,315,731</u>	<u>62,475,656</u>

#### 14. Loans (Continued)

The loan portfolio (excluding accrued interest receivable) includes finance lease receivables whose maturities are detailed below:

	2015	2014
Minimum payments of finance lease receivables:		
Up to 1 year	3,372,516	4,946,457
From 1 to 5 years	84,150,546	50,790,131
More than 5 years	<u>25,035,968</u>	<u>3,117,186</u>
Total minimum payments	112,559,030	58,853,774
Less: unearned income	<u>(12,762,144)</u>	<u>(5,623,037)</u>
Total finance lease receivables, net	<u>99,796,886</u>	<u>53,230,737</u>

During the year ended December 31, 2015, the Bank recorded tax credits for the approximate amount of B/.14,061,391 (2014: B/.13,015,947), as interest revenue from the portfolio of preferential mortgage loans. At December 31, 2015, the Bank has pending a request made to the tax authorities for tax credits for the amount of B/.40,224,348 (2014: B/.28,644,045). (See Note 18). The Management of the Bank estimates that it will not incur losses in the realization of these tax credits.

This net benefit is equivalent to the difference between the interest that would have been received by the Bank in the event of having charged the actual market interest rate during that year and the interest actually received related to each of the preferential mortgage loans.

#### 15. Investment in Associates

In April 2014, Inversiones Saneal, S. A. completed the sale of its teak plantations by returning to shareholders their contributions and obligations receivables at that date. The company was dissolved by Deed No.19,873 of July 18, 2014.

## 16. Properties, Furniture, Equipment, and Improvements

The properties, furniture, equipment, and improvements are summarized as follows:

	2015				
	Land	Building	Furniture and Equipment	Improvements	Total
<b>Cost:</b>					
At beginning of the year	3,863,992	33,899,477	80,563,694	55,461,836	173,788,999
Additions	-	-	13,667,401	31,687,339	45,354,740
Sales and disposals	(343,276)	(1,165,474)	(6,228,779)	(10,575,322)	(18,312,851)
Disposal for sale of subsidiary (Note 28)	-	-	(1,567,659)	-	(1,567,659)
At year end	<u>3,520,716</u>	<u>32,734,003</u>	<u>86,434,657</u>	<u>76,573,853</u>	<u>199,263,229</u>
<b>Accumulated depreciation and amortization:</b>					
At beginning of the year	-	15,255,809	64,853,541	22,060,540	102,169,890
Expense of the year	-	1,207,539	7,466,876	4,012,152	12,686,567
Sales and disposal	-	(542,660)	(6,101,774)	(2,074,355)	(8,718,789)
Disposal for sale of subsidiary (Note 28)	-	-	(1,521,574)	-	(1,521,574)
At year end	<u>-</u>	<u>15,920,688</u>	<u>64,697,069</u>	<u>23,998,337</u>	<u>104,616,094</u>
Net balance	<u>3,520,716</u>	<u>16,813,315</u>	<u>21,737,588</u>	<u>52,575,516</u>	<u>94,647,135</u>
<b>2014</b>					
	Land	Building	Furniture and Equipment	Improvements	Total
<b>Cost:</b>					
At beginning of the year	4,400,992	33,899,477	79,543,663	44,812,027	162,656,159
Additions	-	-	3,103,978	10,972,113	14,076,091
Sales and disposal	(537,000)	-	(2,083,947)	(322,304)	(2,943,251)
At year end	<u>3,863,992</u>	<u>33,899,477</u>	<u>80,563,694</u>	<u>55,461,836</u>	<u>173,788,999</u>
<b>Accumulated depreciation and amortization:</b>					
At beginning of the year	-	14,024,623	59,356,943	19,394,828	92,776,394
Expense of the year	-	1,231,186	7,271,907	2,774,833	11,277,926
Sales and disposal	-	-	(1,864,632)	(134,544)	(1,999,176)
Reclassification of assets classified as held-for-sale	-	-	89,323	25,423	114,746
At year end	<u>-</u>	<u>15,255,809</u>	<u>64,853,541</u>	<u>22,060,540</u>	<u>102,169,890</u>
Net balance	<u>3,863,992</u>	<u>18,643,668</u>	<u>15,710,153</u>	<u>33,401,296</u>	<u>71,619,109</u>

## 17. Goodwill and Other Intangible Assets, Net

The goodwill and other intangible assets, net, are detailed as follows:

	<b>2015</b>	<b>2014</b>
Goodwill	61,193,018	66,739,678
Software	<u>15,349,592</u>	<u>21,621,843</u>
	<u>76,542,610</u>	<u>88,361,521</u>

The movement of goodwill is detailed as follows:

	<b>2015</b>	<b>2014</b>
Beginning balance	66,739,678	66,739,678
Disposal for sale of subsidiary (Note 28)	<u>(5,546,660)</u>	<u>-</u>
Ending balance	<u>61,193,018</u>	<u>66,739,678</u>

The detail of the goodwill assigned to each business unit is detailed as follows:

	<b>2015</b>	<b>2014</b>
Consumer	17,868,358	19,487,982
Corporate	<u>43,324,660</u>	<u>47,251,696</u>
	<u>61,193,018</u>	<u>66,739,678</u>

The summary of the software in use and in process is presented as follows:

	<b>2015</b>	<b>2014</b>
Software in use	72,319,016	77,261,582
Software in process	2,489,689	5,133,836
Accumulated amortization	<u>(59,459,113)</u>	<u>(60,773,575)</u>
Net balance	<u>15,349,592</u>	<u>21,621,843</u>

The movement of the accumulated amortization of the software in use is summarized as follows:

	<b>2015</b>	<b>2014</b>
Beginning balance	60,773,575	54,120,307
Amortization expensed for the year	5,131,361	6,761,402
Decreases	<u>(6,445,823)</u>	<u>(108,134)</u>
Ending balance	<u>59,459,113</u>	<u>60,773,575</u>

## **17. Goodwill and Other Intangible Assets, Net (Continued)**

For the purpose of impairment testing, goodwill is allocated to the operating divisions which represent the lowest level within the Bank. Goodwill is monitored for internal management purposes; and the amount does not exceed the discounted future cash flows of the operating segments.

The recoverable amounts of the business units of personal financial services and commercial banking have been calculated based on their value in use; however due to the sale of subsidiaries, there was de-recognition of goodwill as a result of reallocation made at the time to recognize the disposition of the subsidiaries sold.

Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of the unit. The calculation of value in use was based on the following key assumptions:

- Actual 2015 operating results and business plan for 2016 were used to project future cash flows. Future cash flows were projected using average growth rates assumptions based on long-term growth rates. The forecast period is based on the long-term perspective of the Bank regarding the operation of these units that was determined in 10 years.
- The discount rate (before tax effects) of 11.40% was applied in determining the amounts recoverable for the business units of personal financial services and commercial banking. This discount rate is calculated on the basis of past experience and weighted average cost of capital (WACC) assigned to these units.

The key assumptions described above may change as economic and market conditions change. The Bank estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of either unit to decline below the carrying amount.

## 18. Other Assets

Other assets are summarized as follows:

	<b>2015</b>	<b>2014</b>
Prepaid taxes and expenses	20,643,459	21,488,124
Marketable and non-marketable foreclosed assets, net	3,395,914	2,217,578
Guaranty deposits	972,094	1,098,036
Unemployment funds	7,264,932	7,661,588
Accounts receivable, credit and debit cards operations	5,599,097	5,729,214
Tax credits (Note 14)	43,580,703	39,113,668
Derivative financial instruments	5,242,236	14,276,014
Others	<u>31,590,092</u>	<u>8,307,527</u>
	<u>118,288,527</u>	<u>99,891,749</u>

At December 31, 2015, the amount of B/.8,948,437 was restricted in a deposit account in Bank of America for a court order concerning to a process between unrelated third parties to the Bank.

The marketable and non-marketable foreclosed assets are summarized as follows:

	<b>2015</b>	<b>2014</b>
Foreclosed marketable assets	3,842,854	2,690,375
Foreclosed non-marketable assets	186,311	54,269
Depreciation of foreclosed marketable and non- marketable assets	<u>(633,251)</u>	<u>(527,066)</u>
	<u>3,395,914</u>	<u>2,217,578</u>

The movement of the amortization of marketable and non-marketable foreclosed assets is summarized as follows:

	<b>2015</b>	<b>2014</b>
Beginning balance	527,066	78,699
Amortization expensed for the year	186,357	443,060
Decreases	(80,172)	-
Reclassified portion to discontinued operations	<u>-</u>	<u>5,307</u>
Ending balance	<u>633,251</u>	<u>527,066</u>

## 19. Borrowings

Borrowings (excluding accrued interest payable) are summarized below:

	2015	2014
Borrowings with maturity in 2015 and Libor interest rate of 3, 6 and 12 months plus margin	-	307,806,810
Borrowings with maturity in 2015 and fixed interest annual rate	-	240,288,351
Borrowings with maturity in 2016 and variable Libor interest rate of 3 and 6 months plus margin	565,097,417	28,191,172
Borrowings with maturity in 2017 and Libor interest rate of 3 and 6 months plus margin	450,000,000	400,000,000
Borrowings with maturity in 2018 and Libor interest rate of 3 months plus margin	<u>77,500,000</u>	<u>50,000,000</u>
	1,092,597,417	1,026,286,333
Less: Deferred commissions	<u>(3,425,350)</u>	<u>(5,319,407)</u>
	<u>1,089,172,067</u>	<u>1,020,966,926</u>

The Bank has no defaults of principal, interest or other contractual clauses regarding their obligations.

At December 31, 2015, the annual interest rates on borrowings range between 0.13% and 2.75% (2014: 0.15% and 3.32%).

At April 28, 2015, Citibank, N. A. granted Banistmo, S. A. a line of credit of B/.54,000,000 with maturity on April 28, 2016, guaranteed with Negotiable Certificates of Participation (CERPANES) with a nominal value at December 31, 2015 of B/.35,047,246 (2014: B/.40,403,347) and a fair value of B/.74,630,149 (2014: B/.83,167,663). (See Note 13).

On October 6, 2014, The Bank of Tokyo Mitsubishi UFJ, JP Morgan and Wells Fargo structured to Banistmo, S. A. a global syndicated loan for B/.400,000,000 maturing on October 6, 2017.

## 20. Sundry Creditors

Detail of sundry creditors is presented as follows:

	2015	2014
Income tax and other taxes	8,892,724	9,553,614
Insurance payable	14,222,029	19,567,845
Deferred commissions	2,188,575	2,224,195
Accrued expenses	34,397,641	35,920,685
Balances not claimed by clients	24,874,066	15,780,845
Retained funds for litigations	33,033,181	20,566,963
Derivative financial instruments	5,176,608	7,413,357
Other liabilities payable	<u>73,410,410</u>	<u>77,506,020</u>
	<u>196,195,234</u>	<u>188,533,524</u>

## 21. Common Shares

The composition of common capital is summarized as follows:

	2015	2014
Number of authorized shares with a nominal value of B/.1 each	<u>20,000,000</u>	<u>20,000,000</u>
Issued shares with a nominal value of B/.1 each		
Beginning balance	10,000,001	10,000,001
Issuance of shares	<u>1,325,780</u>	<u>-</u>
Ending balance	<u>11,325,781</u>	<u>10,000,001</u>
<b>Additional paid-in capital</b>		
Beginning balance	612,491,972	612,491,972
Contribution to capital	<u>131,252,220</u>	<u>-</u>
Ending balance	<u>743,744,192</u>	<u>612,491,972</u>
Total capital	<u>755,069,973</u>	<u>622,491,973</u>

## 22. Preferred Shares

The Bank maintained an issuance of preferred shares, registered with the Superintendency of Market Securities of the Republic of Panama.

The table below shows the current issued preferred shares amounts, which terms and conditions are established in its respective Offering Memorandum:

<b>Issuance Date</b>	<b>2015</b>	<b>2014</b>	<b>Dividends</b>	<b>Type</b>
August 30, 2004	<u>                    </u> -	<u>147,151,800</u>	7.00%	Non-Cumulative

During 2004, the Superintendency of Banks of Panama approved the new issuance of non-cumulative preferred shares for B/.150,000,000 to replace the preferred shares issued in 2001. This issuance did not have a maturity date and the issuer had the right to partially or fully redeem them from August 30, 2007 onwards. The number of preferred shares in circulation as of December 31, 2014 amount to 1,471,518 with a nominal value of B/.100 each, with no maturity date.

In addition, the Offering Memorandum of the public offerings established the following issuance conditions:

- The payment of the dividends will take place on a quarterly basis each year or until the date of partial or complete redemption of the shares, once declared by the Board of Directors. The declaration of dividends corresponds to the Board of Directors, using their best judgment. The Board of Directors does not have a contractual nor regulatory obligation to declare dividends.
- The Bank cannot guarantee or guarantee the payment of dividends.
- The preferred shareholders will not be affected in their investment as long as the Bank does generate the earnings or necessary profits, which in the judgment of the Board of Directors, could be sufficient to declare dividends.
- The preferred shares are backed with the general credit of the Bank and enjoy the preferred rights over the common shareholders in the payment of dividends once these are declared.

On December 4, 2014, a request for the non-objection to the redemption of 100% of the preferred shares was sent to the Superintendency of Banks of Panama. Moreover, the Bank reported the immediate capitalization of common shares by Bancolombia, S. A.

## 22. Preferred Shares (Continued)

By Resolution SBP-DS-N-6853-2014 of December 30, 2014, the Superintendency of Banks of Panama expressed no objection to the process of early redemption of all non-cumulative preferred shares issued by Primer Banco del Istmo, S.A. (currently Banistmo, S. A.) in three series, namely, Series A, Series B and Series C, on August 30, 2004. On January 30, 2015, it was reported to the Superintendency of Market Securities the Bank's decision to exercise its right of redemption. This decision was notified to the preferred shareholders on January 26, 27, and 28, 2015, through a local newspaper. On March 2, 2015 the total preferred shares issued and outstanding were redeemed for the amount of B/.147,151,800.

## 23. Commitments and Contingencies

In the normal course of business, the Bank maintains financial instruments with off-balance sheet risks to meet the financial needs of its customers. These financial instruments include letters of credit, guarantees, and loan commitments that involve, to varying degrees, elements of credit risk.

Guarantees issued on behalf of customers, commercial letters of credit and loan commitments carry exposure to credit loss risk in the event of non-performance by the customer, net of tangible guarantees securing these transactions. The Bank's credit policies and procedures to approve contingent credit are the same as those for extension of credit. It is Management's opinion that no material losses will be incurred by the Bank resulting from these contingent liabilities on behalf of customer.

The financial instruments with off-balance credit risk not included in the consolidated statement of financial position are detailed as follow:

	<b>2015</b>	<b>2014</b>
Letters of credit	46,221,706	65,702,565
Guarantees, endorsements and others	648,248,828	812,685,078
Loan commitments	<u>1,152,948,464</u>	<u>1,183,868,223</u>
	<u>1,847,418,998</u>	<u>2,062,255,866</u>

### **23. Commitments and Contingencies (Continued)**

At December 31, 2015, the Bank had all financial instruments with off-balance sheet credit risks classified under the category normal and in compliance with Agreement 4-2013. The Bank's Management does not expect to incur losses in relation to this Agreement.

At December 31, 2015, there were legal claims filed against the Bank and its subsidiaries over categorized cases for an amount of B/.7,618,789 (2014: B/.10,879,636) plus interest and legal costs. The Bank's Management and its legal advisors estimate that the result of these cases will not result in a material adverse effect on the consolidated financial position of the Bank. On those cases in which probabilities exist of an unfavorable outcome, the Bank maintains an assigned provision for this contingency amounting B/.676,546 (2014: B/.1,976,651) under other liabilities' account in the consolidated statement of financial position.

At December 31, 2015, the Bank maintains, with third parties, commitments emanating from lease contracts of operating premises which will expire during various dates in the upcoming years. The value of the annual lease payments of the contracts for the next five years is as follows:

<b>Year</b>	<b>2015</b>	<b>2014</b>
2016	12,667,676	9,913,630
2017	11,891,350	9,285,960
2018	11,735,122	9,377,825
2019	10,075,212	8,274,791
More than 5 years	142,921,775	22,024,036

During the year ended December 31, 2015, the premises lease expense amounted to B/.12,913,806 (2014: B/.7,391,794).

### **24. Financial Derivative Instruments**

The Bank offers contracts to its customers for the purchase/sale of foreign currencies related to the strategies of their clients to manage risks of currency fluctuation, transfers, and other market risks or for their own trading purposes. As part of this process, the Bank deems appropriate the level of risk involved in regards to the characteristics of the business. In this sense, the Bank manages and controls the risk on these contracts for the purchase/sale of foreign currencies through the authorization of limits on the amount and terms for their clients.

## 24. Financial Derivative Instruments (Continued)

The Bank manages market risk in foreign currency within the limits established using the approved treasury instruments. The Bank uses contracts of forward purchase/sale of foreign currencies to manage its exposure to foreign currency risks.

At December 31, 2015, the Bank entered into forward contracts to purchase or sell foreign currency to cover client's operations as well as its own, as follows:

Currency	2015		2014	
	Nominal Value Equivalent in Balboas	Fair Value Assets (Liabilities)	Nominal Value Equivalent in Balboas	Fair Value Assets (Liabilities)
<i>Future contracts - purchase of currencies</i>				
Costa Rican Colon	12,000,000	166,503	14,417,206	(83,792)
Euros	15,840,096	(212,669)	4,931,820	(207,159)
Pound Sterling	-	-	206,360	-
Mexican Pesos	20,273,742	(271,252)	2,305,540	(108,534)
Swiss Franc	50,902	1,623	418,776	(5,232)
Japanese Yen	9,746,490	<u>135,039</u>	8,449,151	<u>(586,177)</u>
Total		<u>(180,756)</u>		<u>(990,894)</u>
<i>Future contracts - sell of currencies</i>				
Costa Rican Colon	45,433,055	(274,187)	13,708,061	(10,676)
Euros	15,902,689	245,857	4,910,304	207,534
Mexican pesos	136,246,352	3,009,084	175,899,140	11,794,418
Swiss Franc	51,434	(1,091)	418,776	5,232
Japanese Yen	9,765,625	<u>(115,915)</u>	8,413,521	<u>586,423</u>
Total		<u>2,863,748</u>		<u>12,582,931</u>

## 24. Financial Derivative Instruments (Continued)

The average maturity of these contracts is 2.24 months (2014: 2.25 months).

During the year ended December 31, 2015, the Bank recognized in the consolidated statement of income, a loss of B/.453,988 (2014: B/.3,233,295) as a result of buying and selling of foreign currencies in external forward foreign currency.

### Interest Rate Swaps

At December 31, 2015, the Bank had recorded seven (2014: eight) interest rate swap contracts with a nominal value of B/.51,864,980 (2014: B/.86,974,539) and fair value recorded in assets of B/.1,250,016 (2014: B/.1,570,918) with maturities from September 2016 until February 2023.

Additionally, at December 31, 2015, the Bank had recorded nine (2014: eight) interest rate swap contracts with a nominal value of B/.59,064,980 (2014: B/.86,974,539) and fair value recorded in liabilities of B/.1,078,759 (2014: B/.1,084,122) with maturities from September 2016 to July 2025.

### Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of its instruments or fixed rate financial assets attributable to changes in market interest rates.

The fair values of derivatives designated as fair value hedges are as follows:

	2015		2014	
	Nominal Value	Fair Value	Nominal Value	Fair Value
Interest rate swaps	<u>101,930,000</u>	<u>(1,995,120)</u>	<u>101,930,000</u>	<u>(992,041)</u>

### Macro cash flow hedges

The Bank uses interest rate swaps to cover interest rate risk of its portfolio of time deposits.

## 24. Financial Derivative Instruments (Continued)

The fair values of derivatives designated as macro cash flow hedges are as follows:

	2015		2014	
	Nominal Value	Fair Value	Nominal Value	Fair Value
Interest rate swaps	<u>200,000,000</u>	<u>(793,501)</u>	<u>200,000,000</u>	<u>(4,224,135)</u>

The periods when cash flows are expected to occur related to macro hedges, as well as the periods which are expected to affect the consolidated income statement, are as follows:

	2015				Total
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	
Cash inflow	-	307,372	-	-	307,372
Cash outflow	<u>-</u>	<u>(1,100,873)</u>	<u>-</u>	<u>-</u>	<u>(1,100,873)</u>
	<u>-</u>	<u>(793,501)</u>	<u>-</u>	<u>-</u>	<u>(793,501)</u>

	2014				Total
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	
Cash inflow	-	251,432	-	1,585,423	1,836,855
Cash outflow	<u>-</u>	<u>(1,104,508)</u>	<u>-</u>	<u>(4,956,482)</u>	<u>(6,060,990)</u>
	<u>-</u>	<u>(853,076)</u>	<u>-</u>	<u>(3,371,059)</u>	<u>(4,224,135)</u>

At December 31, 2015, it was recognized in equity, net unrealized gains amounting B/.3,430,634 (2014: B/.2,975,930), related to the effective portion of cash flow hedges.

## 25. Balances and Transactions with Related Parties

The consolidated statement of financial position and consolidated statement of income include balances and transactions with related parties. The related parties with Bancolombia Group include transactions with Bancolombia, S. A. (Parent – Colombia), Banco Agrícola, S. A., Bancolombia (Panama), S. A., Valores Bancolombia Panama, S. A., and Bancolombia Puerto Rico, summarized as follows:

	Directors and Key Management Personnel		Bancolombia Group	
	2015	2014	2015	2014
<b>Assets</b>				
Deposits in banks	<u>-</u>	<u>-</u>	<u>4,499,964</u>	<u>3,930,103</u>
Loans	<u>3,406,354</u>	<u>3,219,572</u>	<u>-</u>	<u>-</u>
Accrued interest receivable	<u>6,635</u>	<u>7,141</u>	<u>-</u>	<u>-</u>

No provisions have been recognized due to impairment of financial assets with related parties.

The loans to directors and key management personnel are granted with the same terms and conditions that are available for other employees. The terms and conditions are based on those given to third parties adjusted for a lesser risk of credit. The loans to directors as of December 31, 2015 amounted to B/3,406,354 (2014: B/3,219,572) and have an average annual interest rate of 2.99% (2014: 3.30%). No long-term or post-employment benefits have been granted to directors or key management personnel.

	Directors and Key Management Personnel		Bancolombia Group	
	2015	2014	2015	2014
<b>Deposits</b>				
Demand deposits and savings	<u>893,925</u>	<u>942,649</u>	<u>28,847,263</u>	<u>198,050,388</u>
Time deposits	<u>142,937</u>	<u>535,000</u>	<u>-</u>	<u>-</u>
Interbank deposits	<u>-</u>	<u>-</u>	<u>200,000,000</u>	<u>-</u>
Borrowings	<u>-</u>	<u>-</u>	<u>100,000,000</u>	<u>240,000,000</u>
Accrued interest payable	<u>3,180</u>	<u>3,681</u>	<u>564,474</u>	<u>67,833</u>
Other liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>777,997</u>
<b>Equity</b>				
Preferred shares	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,578,000</u>

## 25. Balances and Transactions with Related Parties (Continued)

For the year ended December 31, 2015, the following items of income and expenses are included in aggregate amounts because of the aforementioned referenced related parties' transactions:

	Directors and Key Management Personnel		Bancolombia Group	
	2015	2014	2015	2014
<b>Interest income on:</b>				
Loans	<u>107,979</u>	<u>50,972</u>	<u>-</u>	<u>-</u>
Deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>20</u>
<b>Other Income</b>	<u>-</u>	<u>-</u>	<u>8,394</u>	<u>-</u>
<b>Interest expense on:</b>				
Deposits	<u>26,322</u>	<u>18,993</u>	<u>390,889</u>	<u>-</u>
Borrowings	<u>-</u>	<u>-</u>	<u>1,837,728</u>	<u>915,500</u>
<b>General and administrative expenses:</b>				
Salaries – short term	<u>2,839,492</u>	<u>2,777,231</u>	<u>-</u>	<u>-</u>
Employee benefits – short term	<u>186,547</u>	<u>699,971</u>	<u>-</u>	<u>-</u>

## 26. Assets Under Management

The Bank maintains the managed trusts on off-balance sheet accounts. The total of net managed trusts amounts to B/.2,645,405,949 (2014: B/.2,201,141,633), as detailed below:

	2015	2014
Total assets	3,534,995,975	3,166,583,233
Total liabilities	<u>(889,590,026)</u>	<u>(965,441,600)</u>
Total net trusts	<u>2,645,405,949</u>	<u>2,201,141,633</u>

Trust operations in Panama are regulated by the Superintendency of Banks of Panama in accordance with the established legislation in Law No.1 of January 5, 1984.

The Bank provides custody securities services for customers through third parties. At December 31, 2015, the values of all assets under management were B/.548,441,728 (2014: B/.547,053,965).

## 27. Fair Value of Financial Instruments

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

### (a) Valuation models

The Bank establishes a fair value hierarchy that classifies into three levels the input data of the valuation techniques used to measure the fair value:

- Level 1: Quoted prices (unadjusted) in active markets for assets or liabilities identical to those the Bank may access at the measurement date.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This category includes: quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other valuation techniques in which all significant inputs are directly or indirectly observable in the market.
- Level 3: This category includes all assets or liabilities for which the valuation technique includes inputs not based on observable market 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.

Valuation techniques include net present value and discounted cash flow models, compared with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk and benchmark free interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices, and volatilities and correlations from expected prices.

## 27. Fair Value of Financial Instruments (Continued)

### (a) *Valuation models (continued)*

In addition, given that the Bank has derivative financial instruments, a methodology of adjustment for the counterparty credit risk (credit value adjustment) is applied; for which the Bank creates a provision against possible default from the counterparty. This provision is developed by Market Risk Management and Liquidity and later approved by the corresponding party.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date in current market conditions.

The decision of whether a market is considered active may include, but is not limited to, consideration of factors such as the magnitude and frequency of trading activity, availability, and price and volume of the deals and transactions. In markets that are not active, the guarantee of getting the price of the transaction to provide evidence of fair value adjustments or determining the transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

An instrument is classified as fully valued using unobservable variables (i.e., level 3) if in the opinion of Management, a significant part of the book value of the instrument and/or an initial gain (“the gain or loss on day 1”) is driven by non-observable variables.

“Unobservable” in this context means that there is little or no current market data available to determine what would be the price of a transaction. In general, this does not mean that there is no kind of market data available in which to base the determination of a reasonable value (price data may, for example, be used).

Furthermore, in some cases, most of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to the observable variables. Consequently, the impact of uncertainty in the determination of the unobservable variables is restricted to the uncertainty about the overall fair value of the financial instruments being measured.

## 27. Fair Value of Financial Instruments (Continued)

### *(a) Valuation models (continued)*

The fair value of a portfolio of financial instruments traded in an active market is calculated as the product of the number of units multiplied by their trading price.

The valuation techniques used when market prices are unavailable incorporate certain assumptions that the Bank believes would be conducted by a market participant to establish fair value. When the Bank considers that there are additional considerations not included in the valuation model, adjustments can be made.

The lack of liquidity and lack of activity in the market for asset-backed securities has resulted in less observable data available. While quoted market prices are generally used to determine the fair value of these instruments, valuation models are used to verify the reliability of the limited market data available and to determine if required adjustments be made to quote market prices. In the absence of market price quotations, fair value is determined using valuation techniques based on calculating the present value of future cash flows of the financial instrument. The initiation of these valuation techniques is derived from observable market data and, where applicable, assumptions concerning unobservable variables.

### *(b) Valuation framework*

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of the platform services (“Front Office”), and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

These specific controls include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process of the valuation methodologies used by the corresponding area;
- Analysis and investigation of significant daily valuation movements; and review of significant unobservable inputs.

## 27. Fair Value Financial Instruments (Continued)

### (c) Financial instruments measured at fair value – fair value levels

The table below analyzes financial instruments (excluding accrued interest receivable) measured at fair value on a recurring basis. These instruments are classified into different levels of fair value hierarchy based on inputs data used and valuation techniques:

2015 Description	Total	Fair value measurement		
		Level 1	Level 2	Level 3
Securities at fair value through profit or loss				
Corporate bonds	32,572,294	17,622,430	9,636,524	5,313,340
Republic of Costa Rica bonds	26,126,598	-	26,126,598	-
Republic of Panama bonds	15,624,204	-	15,624,204	-
Republic of Mexico bonds	115,626,596	115,626,596	-	-
United States of America bonds	7,913,520	7,913,520	-	-
Derivatives	5,242,236	-	5,242,236	-
Securities available-for-sale:				
Equity shares	7,911,359	-	-	7,911,359
Republic of Mexico bonds	35,607,758	35,607,758	-	-
Republic of Colombia bonds	43,176,280	43,176,280	-	-
United States of America bonds	128,162,490	128,162,490	-	-
Republic of Panama bonds	269,853,483	-	269,853,483	-
Certificates of Participation (CERPAN)	<u>83,345,030</u>	<u>-</u>	<u>83,345,030</u>	<u>-</u>
Total	<u>771,161,848</u>	<u>348,109,074</u>	<u>409,828,075</u>	<u>13,224,699</u>
Derivative liabilities instruments	<u>(5,176,608)</u>	<u>-</u>	<u>(5,176,608)</u>	<u>-</u>

## 27. Fair Value Financial Instruments (Continued)

(c) Financial instruments measured at fair value – fair value levels (continued)

2014 Description	Total	Fair value measurement		
		Level 1	Level 2	Level 3
Securities at fair value through profit or loss				
Treasury Bills	172,894,547	172,894,547	-	-
Corporate bonds	5,653,497	-	4,869,016	784,481
Republic of Costa Rica bonds	18,818,517	-	18,818,517	-
Republic of Panama bonds	15,014,651	4,647,563	10,367,088	-
Republic of Colombia bonds	2,219,000	2,219,000	-	-
Derivatives	14,276,014	-	14,276,014	-
Securities available-for-sale:				
Equity shares	10,562,896	383,874	-	10,179,022
Republic of Mexico bonds	11,525,448	11,525,448	-	-
Republic of Colombia bonds	33,290,765	33,290,765	-	-
United States of America bonds	34,853,125	34,853,125	-	-
Republic of Panama bonds	320,678,297	1,923,750	318,754,547	-
Corporate bonds	13,418,521	-	6,278,521	7,140,000
Certificates of Participation (CERPAN)	<u>110,341,907</u>	<u>-</u>	<u>110,341,907</u>	<u>-</u>
Total	<u>763,547,185</u>	<u>261,738,072</u>	<u>483,705,610</u>	<u>18,103,503</u>
Derivative liabilities instruments	<u>(7,413,357)</u>	<u>-</u>	<u>(7,413,357)</u>	<u>-</u>

## 27. Fair Value Financial Instruments (Continued)

### (c) Financial instruments measured at fair value – fair value levels (continued)

Management uses the following valuation techniques for Level 2 financial instruments:

<i>Financial Instrument</i>	<i>Valuation Technique</i>
Debt instrument – government, multilateral financial institutions and corporate	The price is taken from the main supplier hired by the Bank, and the liquidity of the bond is evaluated.
Certificates of Participation (CERPAN)	CERPAN's quoted prices published weekly by Sistema de Ahorro y Capitalización de Pensiones de los Servidores Públicos multiplied by the number of quota of each CERPAN.
Derivative instruments - swaps	Cash flow model between fixed and variable rates using their respective yield curves price of our provider selected by the Bank.
Derivative instruments - forward purchase/sale of currencies	Discounted cash flow model using market data to construct curves or implicit discount rates for each currency, the price provider selected by the Bank.

### (d) Level 3 fair value measurements

The table below shows a reconciliation of the opening and closing balance of the financial instruments measured at fair value over a recurrent base on Level 3:

	<b>2015</b>		
	<b>Equity Shares</b>	<b>Corporate Bonds</b>	<b>Total</b>
Beginning balance	10,179,022	7,924,481	18,103,503
Total gains (losses):			
In the consolidated statement of income	-	(55,040)	(55,040)
In the consolidated statement of comprehensive income	(2,087,831)	(140,000)	(2,227,831)
Purchases	-	30,426,813	30,426,813
Liquidations and others	(179,832)	(35,871,905)	(36,051,737)
Transferred from level 2	-	2,922,417	2,922,417
Premiums and discounts	-	106,574	106,574
Ending balance	<u>7,911,359</u>	<u>5,313,340</u>	<u>13,224,699</u>

## 27. Fair Value Financial Instruments (Continued)

(d) Level 3 fair value measurements (continued)

	<b>2014</b>		
	<b>Equity Shares</b>	<b>Corporate Bonds</b>	<b>Total</b>
Beginning balance	10,365,334	8,140,000	18,505,334
Total gains (losses):			
In the consolidated statement of comprehensive income	(49,703)	-	(49,703)
Purchases	-	15,784,481	15,784,481
Liquidations and others	(136,609)	(16,015,916)	(16,152,525)
Premiums and discounts	-	15,916	15,916
Ending balance	<u>10,179,022</u>	<u>7,924,481</u>	<u>18,103,503</u>

At December 31, 2015, there were transfers from Level 2 to Level 3 of B/.2,922,417 of the fair value hierarchy on securities available-for-sale on a recurring basis, because there is no sufficient market information, which represents non observable data for fair value.

Total gains for the year are presented in the consolidated statement of income and consolidated statement of comprehensive income is detailed below:

	<b>2015</b>			
	<b>Equity shares</b>	<b>Corporate bonds</b>	<b>Debt security</b>	<b>Total</b>
Total gains (losses) included in the consolidated statement of income:				
Gains in financial instruments, net	-	1,499	-	1,499
Total gains (losses) recognized in the consolidated statement of comprehensive income:				
Changes on valuation on securities available-for-sale, net	(140,000)	(2,087,831)	-	(2,227,831)

## 27. Fair Value Financial Instruments (Continued)

### (d) Level 3 fair value measurements (continued)

	2014			
	Equity shares	Corporate bonds	Debt security	Total
Total gains (losses) included in the consolidated statement of income:				
Gains in financial instruments, net	-	-	-	-
Total gains (losses) recognized in the consolidated statement of comprehensive income:				
Changes on valuation on securities available for sale, net	(49,703)	-	-	(49,703)

The table below shows information about significant unobservable inputs used as of December 31, 2015, in measuring the financial instruments categorized as Level 3 in the fair value:

Type of financial instrument	Valuation technique	Significant input data unobservable	Criteria or estimation range	Fair value – sensibility measure on data
Corporate bonds	Valuation of discounted cash flows.	Calculated margins on similar instruments basis.	Margins among 1%-4%.	Apply a risk margin to a benchmark yield curve would result in a lower market value although in some cases could be higher if there is downward variations between the titration curve and the sensitivity curve.
Variable yield securities	Reference for bid/ask prices on completed transactions	Reference price or value on unobservable share value	Value of the share reference price offer shopping and share value under reference price on sales.	Variation %, lower or upper, on reference securities

For sensitivity estimates the fair value of Level 3 on debt instruments whose trading is illiquid and availability of objective information, the Bank considers the use of the methodology of future cash flows based on inputs such as yield curves plus a margin based on similar instruments.

## 27. Fair Value Financial Instruments (Continued)

### (d) Level 3 fair value measurements (continued)

Other instruments such as equity shares or instruments classified in Level 3 are valued under the method of value under reference prices and offers shopping reference price sales.

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

2015	Effect in gains (losses)		Effect in other comprehensive income	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Investments	19,519	(12,391)	493,554	(791,136)

2014	Effect in gains (losses)		Effect in other comprehensive income	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Investments	5,532	(21,295)	1,017,902	(1,096,227)

The favorable and unfavorable effects of using reasonably possible alternative assumptions for the valuation of debt securities have been assigned to the model with respect to the use of unobservable inputs based on a percentage valuation of the price obtained or margin changes according to the valuation technique. For equity instruments with reference price, but lacking liquidity, the Bank sees 5% favorable and 10% unfavorable percentage change. In the case of debt instruments, specifically corporate bonds, margins to the yield curve were applied (USD LIBOR) obtained among observable market prices of similar instruments and the same issuer, and curve of reference.

## 27. Fair Value Financial Instruments (Continued)

### (e) Financial instruments not measured at fair value

The following table analyzes the fair value of financial instruments (excludes accumulated interest receivable and payable) not measured at fair value by level:

<b>2015</b>					
<b>Description</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value measurement Fair value</b>	<b>Book value</b>
<b>Assets</b>					
Cash and cash equivalents	-	224,237,933	-	224,237,933	224,237,933
Demand deposits in financial institutions	-	344,962,147	-	344,962,147	344,962,147
Time deposits in financial institutions	-	-	377,673,801	377,673,801	376,673,005
Investments held to maturity	-	35,015,400	56,724,630	91,740,030	92,000,000
Loans	-	-	6,715,902,420	6,715,902,420	6,726,577,855
Total assets	-	<u>604,215,480</u>	<u>7,150,300,851</u>	<u>7,754,516,331</u>	<u>7,764,450,940</u>
<b>Liabilities</b>					
Demand deposits	-	1,460,286,295	-	1,460,286,295	1,460,286,295
Saving deposits	-	1,695,067,154	-	1,695,067,154	1,695,067,154
Time deposits	-	-	3,445,392,166	3,445,392,166	3,407,947,843
Borrowings	-	-	1,081,602,835	1,081,602,835	1,089,172,067
Total liabilities	-	<u>3,155,353,449</u>	<u>4,526,995,001</u>	<u>7,682,348,450</u>	<u>7,652,473,359</u>
<b>2014</b>					
<b>Description</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value measurement Fair value</b>	<b>Book value</b>
<b>Assets</b>					
Cash and cash equivalents	-	122,988,552	-	122,988,552	122,988,552
Demand deposits in financial institutions	-	593,612,584	-	593,612,584	593,612,584
Time deposits in financial institutions	-	-	300,238,908	300,238,908	299,851,989
Loans	-	-	6,252,700,563	6,252,700,563	6,185,275,251
Total assets	-	<u>716,601,136</u>	<u>6,552,939,471</u>	<u>7,269,540,607</u>	<u>7,201,728,376</u>
<b>Liabilities</b>					
Demand deposits	-	1,635,872,410	-	1,635,872,410	1,635,872,410
Saving deposits	-	1,562,597,451	-	1,562,597,451	1,562,597,451
Time deposits	-	-	2,929,934,200	2,929,934,200	2,869,453,302
Borrowings	-	-	1,021,843,139	1,021,843,139	1,020,966,926
Total liabilities	-	<u>3,198,469,861</u>	<u>3,951,777,339</u>	<u>7,150,247,200</u>	<u>7,088,890,089</u>

## 27. Fair Value Financial Instruments (Continued)

### (e) Financial instruments not measured at fair value (continued)

The table below describes the valuation techniques and input data used on assets and liabilities not measured at fair value classified in the Level 2 and 3 of the fair value hierarchy:

Financial Instrument	Valuation Techniques and Input Data Used
Loans	The fair value represents the estimated discounted cash flows to be received in the future. Cash flows are discounted to current market rates to determine their fair value.
Time deposits, customers time deposits, borrowings	Discounted cash flows using current market interest rates for financing of new debts with similar remaining maturity.
Cash, demand and time deposits, customers demand and saving deposits	The carrying value of these financial instruments approximates to their fair value, due to their short-term maturity.

The following table summarizes the carrying value and estimated fair value of significant financial assets and liabilities (excluding accrued interest receivable and payable):

### 2015

	Loans	Securities at Fair Value Through Profit or Loss	Securities Available-for- Sale	Securities Held to Maturity	Others at Amortized Cost	Carrying Value	Fair Value
<b>Assets</b>							
Cash and cash effects	-	-	-	-	224,237,933	224,237,933	224,237,933
Demand deposits in financial institutions	-	-	-	-	344,962,147	344,962,147	344,962,147
Time deposits in financial institutions	-	-	-	-	376,673,005	376,673,005	377,673,801
Investments in securities	-	197,863,212	574,379,162	92,000,000	-	864,242,374	863,982,404
Loans	<u>6,726,577,855</u>	-	-	-	-	<u>6,726,577,855</u>	<u>6,715,902,420</u>
Total	<u>6,726,577,855</u>	<u>197,863,212</u>	<u>574,379,162</u>	<u>92,000,000</u>	<u>945,873,085</u>	<u>8,536,693,314</u>	<u>8,526,758,705</u>
<b>Liabilities</b>							
Demand deposits	-	-	-	-	1,460,286,295	1,460,286,295	1,460,286,295
Saving deposits	-	-	-	-	1,695,067,154	1,695,067,154	1,695,067,154
Time deposits	-	-	-	-	3,407,947,843	3,407,947,843	3,445,392,166
Borrowings	-	-	-	-	<u>1,089,172,067</u>	<u>1,089,172,067</u>	<u>1,081,602,835</u>
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,652,473,359</u>	<u>7,652,473,359</u>	<u>7,682,348,450</u>

## 27. Fair Value Financial Instruments (Continued)

(e) Financial instruments not measured at fair value (continued)

2014

	Loans	Securities at Fair Value Through Profit or Loss	Securities Available-for-Sale	Others at Amortized Cost	Carrying Value	Fair Value
<b>Assets</b>						
Cash and cash effects	-	-	-	122,988,552	122,988,552	122,988,552
Demand deposits in financial institutions	-	-	-	593,612,584	593,612,584	593,612,584
Time deposits in financial institutions	-	-	-	299,851,989	299,851,989	300,238,908
Investments in securities	-	214,600,212	541,029,722	-	755,629,934	755,629,934
Loans	<u>6,185,275,251</u>	-	-	-	<u>6,185,275,251</u>	<u>6,252,700,563</u>
Total	<u>6,185,275,251</u>	<u>214,600,212</u>	<u>541,029,722</u>	<u>1,016,453,125</u>	<u>7,957,358,310</u>	<u>8,025,170,541</u>
<b>Liabilities</b>						
Demand deposits	-	-	-	1,635,872,410	1,635,872,410	1,635,872,410
Saving deposits	-	-	-	1,562,597,451	1,562,597,451	1,562,597,451
Time deposits	-	-	-	2,869,453,302	2,869,453,302	2,929,934,200
Borrowings	-	-	-	<u>1,020,966,926</u>	<u>1,020,966,926</u>	<u>1,021,843,139</u>
Total	-	-	-	<u>7,088,890,089</u>	<u>7,088,890,089</u>	<u>7,150,247,200</u>

## 28. Assets and Liabilities Held for Sale

The detail of assets classified as held for sale is presented below:

	2015	2014
Movable property	565,709	408,765
Real estate	<u>4,816,372</u>	<u>8,127,242</u>
	<u>5,382,081</u>	<u>8,536,007</u>

## 28. Assets and Liabilities Held for Sale (Continued)

Through communication to the regulators, it was reported the approval of the sale process of Seguros Banistmo, S. A. to Suramericana, S. A. Through Resolution OAL-91 of May 8, 2015, the Superintendency of Insurance of Panama approved the change of the ownership of one hundred percent (100%) of the issued and outstanding shares of Seguros Banistmo, S. A. to Suramericana, S. A. At August 28, 2015 it was formally completed the sale of holdings of shares of the subsidiary.

### Discontinued Operations Results

For the period ended August 28, 2015, Seguros Banistmo, S. A. had the following results, which were classified as discontinued operations in the consolidated statement of income:

	<b>Period ending on August 28, 2015</b>	<b>Year ended on December 31, 2014</b>
Interest and commission income:		
Interest on:		
Loans	17,790	21,921
Deposits in banks	45,399	185,449
Securities	<u>2,015,284</u>	<u>2,907,746</u>
<b>Total interest and commission income</b>	<u>2,078,473</u>	<u>3,115,116</u>
Income for bank services and others:		
Net gain in derivative and securities	839,564	1,638,412
Net income on insurance business operations	<u>8,631,108</u>	<u>14,411,243</u>
<b>Total income for bank services and others, net</b>	<u>9,470,672</u>	<u>16,049,655</u>
General and administrative expenses:		
Salaries and other personnel costs	2,882,158	2,852,519
Depreciation and amortization	<u>89,639</u>	<u>158,398</u>
<b>Total general and administrative expenses</b>	<u>2,971,797</u>	<u>3,010,917</u>
<b>Income before tax</b>	8,577,348	16,153,854
Income tax	(3,060,927)	(1,509,307)
Deferred income tax	<u>(72,776)</u>	<u>833,647</u>
<b>Income on discontinued operations, net of income tax</b>	5,443,645	15,478,194
Gain on sale of subsidiary, before goodwill disposition	<u>24,831,444</u>	-
	30,275,089	-
Goodwill disposition	<u>(5,546,660)</u>	-
<b>Net income for the preceding year on discontinued operations</b>	<u>24,728,429</u>	<u>15,478,194</u>

## 28. Assets and Liabilities Held for Sale (Continued)

The net assets and liabilities of the subsidiary at August 28, 2015 are as follows:

Cash, cash effects and deposits	(24,661,989)
Investments securities	(69,946,922)
Loans, net	(216,975)
Properties, furniture, equipment and improvements, net of accumulated depreciation and amortization	(46,085)
Accounts receivable and other various assets	(31,418,333)
Other liabilities	<u>57,271,449</u>
Assets and liabilities, net	<u>(69,018,855)</u>
Cash received from sale	96,495,801
Cash delivered on disposal of subsidiary	<u>(24,661,989)</u>
Net received cash	<u>71,833,812</u>

The cash flows from discontinued operations are presented below:

	Period ended on August 28, 2015	Year ended on December 31, 2014
Operating activities	12,586,864	17,224,247
Investing activities	21,271,970	(13,701,112)
Financing activities	<u>(50,564,888)</u>	<u>(103,234)</u>
	<u>(16,706,054)</u>	<u>(3,419,901)</u>

## 29. Main Applicable Laws and Regulations

The main laws and applicable regulations of the Republic of Panama are detailed as follows:

### (a) Banking Law

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendency of Banks of the Republic of Panama, according to the law established by Executive Decree No.52 of April 30, 2008, adopting the only text of the Law Decree No.9 of February 26, 1998, as amended by Decree Law No.2 of February 22, 2008, whereby the banking system in Panama is established and the Superintendency of Banks and the rules governing it created.

## 29. Main Applicable Laws and Regulations (Continued)

### (a) *Banking Law (continued)*

For purposes of compliance with prudential norms issued by the Superintendency of Banks of Panama, the Bank shall prepare an estimate of the credit reserve based on regulatory guidelines. If the regulatory calculation is greater than the respective calculation determined under IFRS, an excess reserve is recognized in regulatory equity reserves.

### (b) *Trusts Law*

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

### (c) *Securities Law*

The issuer's operations and stock brokerage in Panama are regulated by the Market Securities Superintendency in accordance to the legislation established by Decree Law No.1 of July 8, 1999, amended through Law No.67 of September 1, 2011.

The operations of brokerage houses are in the process of adaptation to the Rule 4-2011, amended in certain provisions by Rule 8-2013, established by the Superintendency of Market Securities, which indicate that they are obliged to comply with the capital adequacy rules and modalities.

Regulatory standards issued by the Superintendency of Insurance and Reinsurance of Panama on equity reserve for foreclosed assets:

From August 2009, the Bank considers reasonable the standard issued by the Superintendency of Banks of Panama, which requires banks to establish a capital reserve for assets available for sale based on Agreement 3-2009. The agreement sets a deadline of sale of the property available-for-sale five (5) years, counted from the date of registration in the Public Registry. If after this period, the Bank has not sold the immovable property acquired must make an independent appraisal of the property to determine whether its value has declined, applied in such a case the provisions of IFRS. The Bank shall create a reserve in the equity account to which the following assignments undistributed profits based on the value of the available for sale will be made: first year, 10%; second year, 20%; third year, 35%; fourth year, 15% and fifth year 10%.

## 29. Main Applicable Laws and Regulations (Continued)

Regulatory standards issued by the Superintendency of Banks, effective during the year 2014:

- General Resolution of the Board of Directors SBP-GJD-003-2013 dated July 9, 2013, establishes the accounting treatment for differences arising between prudential standards issued by the Superintendency of Banks and the International Financial Reporting Standards (IFRS). Such that 1) the accounting records and financial statements are prepared in conformity with the IFRS as required by the Agreement No.6-2012 of December 18, 2012, and 2) in the case that a provision or reserve computed, in conformity with prudential standards applicable to banks which exhibits additional specific accounting features others than those required by IFRS, is greater than the computation under the IFRS, the excess of this provision or reserve, under the prudential standards, shall be recorded in a regulatory reserves under equity. This General Resolution became effective for accounting periods ending on or after December 31, 2014.
- Agreement No.4-2013 of May 28, 2013, establishes provisions on credit risk management, inherent on loans portfolio and off-balance sheet items, including general classification criteria for credit facilities in order to determine specific provisions and dynamic of credit risk coverage for the Bank. In addition, this Agreement sets certain minimum required disclosures, leveled to those required by IFRS on the management of credit risk.

This Agreement supersedes in its entirety the Agreement No.6-2000 of June 28, 2000 and all its amendments, Agreement No.6-2002 of August 12, 2002, and Article 7 of Agreement No.2-2003 of March 12, 2003. The Agreement became effective on June 30, 2014.

### Specific provisions

Agreement No.4-2013 states that specific provisions are originated when an objective and concrete evidence of impairment is given. These provisions must be established for credit facilities classified into the following risk categories: special mention, substandard, doubtful, or unrecoverable, for individual credit facilities as well as to a group of credit facilities.

## 29. Main Applicable Laws and Regulations (Continued)

Specific provisions (continued)

At December 31, 2014, as a minimum, banks must compute and maintain at all times the amount of specific provision determined using the methodology specified in this Agreement, which takes into consideration the balance owed on each credit facility, classified on one of the categories subject to provision previously mentioned in the above paragraph; the present value of each available warrant mitigating the risk, as established by type of guaranty in this Agreement; and a weighted average table applied to the net balance exposed to loss on such credit facilities.

Article 34 of the Agreement provides that all claims must be classified into the following five (5) categories according to their risk of default and loan conditions, and establishes the minimum provision rate for each classification: Standard 0% Special Mention 2%, 15% Substandard, Doubtful 50%, and 100% Unrecoverable.

In the case that an excess on the specific provision computed under this Agreement vs. the provision calculated under the IFRS exists, this excess is accounted for in a regulatory reserve under equity as an increase or decrease allocated to or from retained earnings. The balance of regulatory reserve will not be considered as capital funds for purposes of computing certain index or prudential ratios mentioned in the agreement.

Dynamic provision

Agreement No.004-2013 states that the dynamic provision is a reserve established to meet possible future needs for establishment of specific provisions, which is governed by its own criteria prudential banking regulation. The dynamic provision is constituted on a quarterly basis taking into account the data of the last day of the quarter.

The dynamic provision amount is obtained computing the following components:

- Component 1: Is the amount obtained by multiplying the balance of weighted-average assets based on risk, applied only to credit facilities classified under the normal category by the alpha coefficient 1.50%.

## 29. Main Applicable Laws and Regulations (Continued)

Dynamic provision (continued)

- Component 2: Is the amount obtained by multiplying the balance of weighted-average assets based on risk, applied only to credit facilities classified under the normal category, if positive by the beta coefficient 5%. If the variation is negative the amount is zero.
- Component 3: Is the change, in the balance of specific provisions, in the quarter.

The amount of dynamic provision is the sum of the two components, obtained on bullets 1 and 2 minus the third component, with its sign; the amount obtained in bullet 3 has to be added if this component is negative. The amount of the dynamic provision must comply with the following restrictions:

- a. It cannot be greater than 2.5% of its weighted average assets based on risk in relation to credit facilities classified under the normal category.
- b. Cannot be less than 1.25% of its weighted average assets based on risk in relation to credit facilities classified under the normal category.
- c. Cannot be decrease in relation to the amount established in the previous quarter, except that the decrease is attributed to the conversion of specific provisions. The Superintendency of Banks establishes criteria for the aforesaid conversion.

The dynamic provision is an equity item that increases or decreases with allocations to or from retained earnings. The credit balance of this dynamic provision is part of the regulatory capital, but does not replace or offset the capital adequacy requirements established by the Superintendency.

The following table summarizes the dynamic provision balance constituted by the Bank and each of the following subsidiaries as of December 31, 2015:

	<b>2015</b>	<b>2014</b>
Banistmo, S. A.	84,968,873	71,192,191
Leasing Banistmo, S. A.	1,535,789	709,279
Seguros Banistmo, S. A.	-	3,311
Financomer, S. A. and Affiliates	<u>2,020,444</u>	<u>1,813,003</u>
	<u>88,525,106</u>	<u>73,717,784</u>

## 29. Main Applicable Laws and Regulations (Continued)

### Dynamic provision (continued)

The requirement to establish dynamic provisions is not applicable to microfinance banks, for which must maintain an additional provision of 1% on the loan portfolio that has been classified under the normal category following the methodology of loan classification that this Agreement has established for these microfinance banks.

### Regulatory Reserve on Loans under Equity

General Resolution of Board of Directors of the Superintendency of Banks of Panama SBP-GJD-0003-2013 establishes that, in order to present its financial statements in conformity with the IFRS, when the Bank identifies differences between the applications of the IFRS vs. the prudential standards issued by the Superintendency of Banks, it will continue the following methodology:

- Executing the computations of the accounting balances applying the IFRS and the prudential standards issue by the Superintendency of Bank and comparing the amounts.
- Where the computation made in accordance with the IFRS results in a higher reserve or provision for the Bank than the one resulting from the use of prudential regulations, the Bank will recognized the IFRS figures.
- When the impact of using prudential standards results in a greater reserve or provision for the Bank, the effect of the usage of IFRS shall also be recorded in income, and the difference between both computations shall be recorded under retained earnings on a regulatory reserve under equity. In the event that the Bank does not have sufficient retained earnings, the difference shall be presented under an accumulated deficit account.
- The regulatory reserve, referred to in the previous paragraph, cannot be reversed against retained earnings while there are still differences between the IFRS and prudential standards that originated it.

### 30. Unconsolidated Structured Entities

The following table describes the types of structured entities in which the Bank does not hold an interest, but acts as a sponsor to it. The Bank is considered as a sponsor of a structured entity when facilitates its establishment:

Type of structured entity	Nature and purpose	Interest held by the Bank
Separate vehicles – Private trusts	To generate commissions on administration services, and collection and payment agent  To guarantee the payments in the concept of principal, interest or any other concepts owe by the trustor	None

At December 31, 2015, the Bank does not have any contractual obligation to provide financial support or other assistance to these unconsolidated structured entities.

# **Banistmo, S. A. and Subsidiaries**

**Report and Consolidated Financial Statements  
December 31, 2014**

# Banistmo, S. A. and Subsidiaries

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## FREE ENGLISH LANGUAGE TRANSLATION OF SPANISH VERSION

### **Independent Auditors' Report**

Board of Directors and Stockholder of  
Banistmo, S. A.

We have audited the accompanying consolidated financial statements of Banistmo, S. A. and Subsidiaries (the "Bank"), which comprise the consolidated statement of financial position as of December 31<sup>st</sup>, 2014, the consolidated statements of income, comprehensive (loss) income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditors' Responsibility**

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

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



Board of Directors and Stockholder of  
Banistmo, S. A.  
Page 2

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly in all material respects, the consolidated financial position of the Bank as of December 31<sup>st</sup>, 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

### **Other Matter**

The consolidated financial statements of the Bank for the year ended December 31<sup>st</sup>, 2014, in accordance with the International Financial Reporting Standards, as modified by prudential regulations enacted by the Superintendency of Banks of Panama for supervisory purposes, were audited by another auditor who expressed an unmodified opinion on those statements on January 27<sup>th</sup>, 2014. Our audit opinion is not qualified in relation to this matter.

*PricewaterhouseCoopers (signed)*

February 16, 2015  
Panama, Republic of Panama

**Banistmo, S. A. and Subsidiaries**

**Consolidated Statement of Financial Position  
December 31, 2014  
(Figures in Balboa)**

	Notes	December 31, 2014	December 31, 2013	January 1, 2013		Notes	December 31, 2014	December 31, 2013	January 1, 2013
<b>Assets</b>					<b>Liabilities and Equity</b>				
Cash and cash equivalents		122,988,552	120,779,253	159,577,614	<b>Liabilities:</b>				
Deposits in financial institutions:					Client deposits:				
Demand deposits - local		52,110,573	55,394,044	64,635,731		1,564,825,634	1,291,084,383	1,460,448,293	
Demand deposits - foreign		541,502,011	812,820,707	85,102,975		71,046,776	66,459,790	118,995,547	
Time deposits - local		162,190,154	158,790,000	152,000,000		1,562,597,451	1,484,555,262	1,535,267,273	
Time deposits - foreign		137,661,835	212,606,614	878,607,116		2,436,377,982	2,406,861,809	2,582,850,985	
Accumulated interest receivable		410,631	683,327	396,283	31	260,482,558	201,604,945	275,667,906	
Total deposits in financial institutions		893,875,204	1,240,294,692	1,180,742,105					
Total cash, cash equivalents and deposits	4,13,29	1,016,863,756	1,361,073,945	1,340,319,719					
Investments in securities	4,14,29								
Securities at fair value through profit or loss		214,600,212	185,265,151	454,921,029					
Securities available-for-sale		541,029,722	559,268,483	531,530,873					
Accumulated interest receivable		4,888,301	3,616,623	3,316,970					
		760,518,235	748,150,257	989,768,872					
Loans	4,15,27,31	6,304,298,691	5,657,840,872	5,751,873,624					
Minus:									
Allowance for loan losses		62,475,656	59,227,245	56,343,091					
Unearned and discounted interest and commissions		63,872,996	64,149,806	75,051,256					
		6,177,950,039	5,534,463,821	5,620,479,277					
Accumulated interest receivable		29,211,656	28,313,311	33,457,919					
Loans, net		6,207,161,695	5,562,777,132	5,653,937,196					
Held-for-sale financial assets	30	8,536,007	10,677,536	1,195,498,178					
Investment in associates	16	-	425,021	221,270					
Property, furniture, equipment and improvements, net of accumulated depreciation and amortization	17	62,203,886	68,128,925	67,542,169					
Customers' liabilities under acceptances		16,315,517	31,918,347	52,694,326					
Goodwill	18	66,739,678	66,739,678	80,150,238					
Various debtors - insurance business		23,935,837	36,148,125	32,809,006					
Deferred income taxes	11	17,390,493	16,573,318	20,712,365					
Other assets	19	137,874,074	159,434,640	197,343,954					
<b>Liabilities and Equity</b>									
<b>Deferred income tax</b>					11	-	686,838	-	
<b>Bank acceptances</b>						16,315,517	31,918,347	52,694,326	
<b>Cashier's checks and certificates</b>						48,344,824	43,628,267	55,730,466	
<b>Sundry creditors</b>					21	188,533,524	208,020,838	278,496,172	
<b>Sundry creditors - insurance business</b>						53,582,607	61,906,392	62,688,547	
<b>Total liabilities</b>						7,439,755,971	7,250,627,272	8,712,373,638	
<b>Equity</b>									
<b>Common stocks</b>					22	622,491,973	622,491,973	628,692,352	
<b>Preferred stocks</b>					23	147,151,800	147,151,800	147,151,800	
<b>Shared-based compensation</b>						-	-	1,139,388	
<b>Capital reserve</b>						2,500,000	2,500,000	6,429,539	
<b>Equity dynamic reserve</b>					32	73,717,784	-	-	
<b>Regulatory reserve for foreclosed assets</b>						3,092,586	3,816,190	3,604,754	
<b>Regulatory reserve for insurance business</b>						37,177,171	36,312,856	35,403,245	
<b>Reserve for valuation on investment on securities</b>						16,225,220	15,567,510	15,021,234	
<b>Cash flow hedges</b>					26	(4,224,135)	(7,200,065)	(9,897,427)	
<b>Actuarial valuation on define benefits</b>						(738,259)	-	-	
<b>Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale</b>						-	-	40,390,257	
<b>Retained earnings</b>						(15,007,642)	(6,359,719)	57,147,626	
<b>Sur-tax</b>						(4,603,291)	(2,860,893)	(6,581,991)	
						877,783,207	811,419,652	918,500,777	
<b>Non-controlling interest</b>					24	-	-	122,878	
<b>Total equity</b>						877,783,207	811,419,652	918,623,655	
<b>Commitments and contingencies</b>					4,25				
<b>Total liabilities and equity</b>						8,317,539,178	8,062,046,924	9,630,997,293	

The notes on pages 8 to 118 are an integral part of these consolidated financial statements.

## Banistmo, S. A. and Subsidiaries

### Consolidated Statement of Income For the year ended December 31, 2014 (Figures in Balboa)

	Nota	2014	2013
<b>Continuing operations</b>			
Interest and commission income:			
Interest on:			
Loans		355,814,959	352,266,639
Deposits with banks		4,043,702	7,177,304
Securities		26,565,709	30,209,778
Loan commissions		2,356,547	3,485,215
Total interest and commission income		<u>388,780,917</u>	<u>393,138,936</u>
Interest expense:			
Deposits		107,544,631	104,099,753
Financing		21,725,223	21,988,363
Bonds		-	2,558
Total interest expense		<u>129,269,854</u>	<u>126,090,674</u>
Net interest and commission income		259,511,063	267,048,262
<b>Provision for impairment of financial assets</b>			
Loans	15	38,881,305	41,449,414
Net interest and commission income after provisions		<u>220,629,758</u>	<u>225,598,848</u>
Income (expense) from banking and other services:			
Fees and other commissions	7	79,338,932	83,124,286
Net loss on securities and derivatives	8	(443,573)	(4,745,507)
Other provisions	9	583,050	(1,293,579)
Commission expense	9	(34,827,014)	(37,580,237)
Net other income	7	21,872,692	19,365,151
Total income from banking and other services, net		<u>66,524,087</u>	<u>58,870,114</u>
General and administrative expenses:			
Salaries and other employee expenses	9	82,576,618	79,551,347
Rent		9,302,728	8,797,991
Promotion and advertisements		4,225,553	4,800,530
Fees and professional services		21,222,029	14,688,782
Depreciation and amortization	17	18,640,786	49,236,006
Other expenses	9	57,270,776	70,992,920
Total general and administrative expenses		<u>193,238,490</u>	<u>228,067,576</u>
Net income before income tax and discontinued operations		93,915,355	56,401,386
Equity participation in associate		49,363	154,146
Profit before income tax and discontinued operations		93,964,718	56,555,532
Income tax	11	17,150,052	21,304,346
Profit for the year from continuing operations		<u>76,814,666</u>	<u>35,251,186</u>
<b>Discontinued operations</b>			
Loss for the year from discontinued operations, net of income tax	30	-	(15,080,011)
Net income for the year		<u>76,814,666</u>	<u>20,171,175</u>
Net income attributable to:			
Controlling interest	12	76,814,666	20,164,877
Non-controlling Interest	24	-	6,298
		<u>76,814,666</u>	<u>20,171,175</u>
Net utility by basic action attributable to controlling interest			
from continuing operations	12	6.52	0.95
from discontinued operations		-	-
		<u>6.52</u>	<u>0.95</u>

The notes on pages 8 to 118 are an integral part of these consolidated financial statements.

## Banistmo, S. A. and Subsidiaries

### Consolidated Statement of Comprehensive (Loss) Income For the year ended December 31, 2014 (Figures in Balboa)

	Note	2014	2013
Net income for the year		<u>76,814,666</u>	<u>20,171,175</u>
<b>Other comprehensive income:</b>			
Items that are or may be reclassified to income statement:			
Foreign currency translation		-	(37,305,794)
Share-based compensation		-	(1,132,540)
Actuarial valuation on defined benefits		(738,259)	-
Cash flow hedges:			
Effective portion of changes in fair value	26	2,975,930	2,697,362
Reserve for valuation on investment on securities:			
Net changes on securities available for sale's valuation		5,045,110	(1,116,878)
Net gain on securities available for sale transferred to profit or loss	14	<u>(4,387,400)</u>	<u>(1,504,639)</u>
Total other comprehensive (loss) income		<u>2,895,381</u>	<u>(38,362,489)</u>
Total comprehensive (loss) income for the year		<u><u>79,710,047</u></u>	<u><u>(18,191,314)</u></u>
Comprehensive (loss) income attributable to:			
Controlling interest		79,710,047	(18,185,016)
Non-controlling interest		<u>-</u>	<u>(6,298)</u>
Total comprehensive (loss) income for the year		<u><u>79,710,047</u></u>	<u><u>(18,191,314)</u></u>

The notes on pages 8 to 118 are an integral part of these consolidated financial statements.

Banistmo, S. A. and Subsidiaries

Consolidated Statement of Changes in Equity  
For the year ended December 31, 2014  
(Figures in Balboa)

	Attributable to equity holders of the Bank											Retained Earnings	Non-Controlling Interest	Total		
	Note	Capital	Preferred Stocks	Share-Based Compensation	Capital Reserve	Dynamic Reserve	Regulatory Reserve for foreclosed Assets	Regulatory Reserve for Insurance Business	Reserve for valuation on investment on securities	Cash Flow Hedges	Actuarial valuation on define benefits				Amounts recognized in other comprehensive income and accumulated in equity relating to non-current assets held for sale	Sur-tax
<b>Balance as of December 31, 2012</b>		628,692,352	147,151,800	1,139,388	6,429,539	-	3,604,754	35,403,245	15,021,234	(9,897,427)	-	40,390,257	(6,581,991)	57,147,626	122,878	918,623,655
Comprehensive Income:																
Net income		-	-	-	-	-	-	-	-	-	-	-	-	20,164,877	6,298	20,171,175
Other comprehensive income:																
Foreign currency translation relating to non-current assets held for sale		-	-	-	-	-	-	-	-	-	(37,305,794)	-	-	-	-	(37,305,794)
Share-based compensation		-	-	(1,132,540)	-	-	-	-	-	-	-	-	-	-	-	(1,132,540)
Share-based compensation relating to non-current assets held for sale		-	-	(6,848)	-	-	-	-	-	-	6,848	-	-	-	-	-
Cash flow hedges:																
Effective portion of changes in fair value		-	-	-	-	-	-	-	-	2,697,362	-	-	-	-	-	2,697,362
Capital reserve relating to non-current assets held		-	-	-	(76,482)	-	-	-	-	-	76,482	-	-	-	-	-
Fair value reserve (available-for-sale financial assets):																
Net change in fair value		-	-	-	-	-	-	-	(1,116,878)	-	-	-	-	-	-	(1,116,878)
Net change in fair value relating to non-current assets held for sale		-	-	-	-	-	-	-	3,167,793	-	(3,167,793)	-	-	-	-	-
Net amount transferred to profit or loss		-	-	-	-	-	-	-	(1,504,639)	-	-	-	-	-	-	(1,504,639)
Total other comprehensive (loss) income		-	-	(1,139,388)	(76,482)	-	-	-	546,276	2,697,362	(40,390,257)	-	-	-	-	(38,362,489)
Total comprehensive (loss) income		-	-	(1,139,388)	(76,482)	-	-	-	546,276	2,697,362	(40,390,257)	-	-	20,164,877	6,298	(18,191,314)
Other equity transactions:																
Regulatory reserve for foreclosed assets		-	-	-	-	211,436	-	-	-	-	-	-	-	(211,436)	-	-
Regulatory reserve for insurance business		-	-	-	-	-	909,611	-	-	-	-	-	-	(909,611)	-	-
Capital reserve		-	-	-	(3,853,057)	-	-	-	-	-	-	-	-	3,853,057	-	-
Total other equity transactions		-	-	-	(3,853,057)	211,436	909,611	-	-	-	-	-	-	2,732,010	-	-
Contributions and distributions to owners																
Capital return		(6,200,379)	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,200,379)
Dividends paid - common shares		-	-	-	-	-	-	-	-	-	-	-	-	(75,696,983)	-	(75,696,983)
Dividends paid - preferred stocks		-	-	-	-	-	-	-	-	-	-	-	-	(10,707,249)	-	(10,707,249)
Sur-tax		-	-	-	-	-	-	-	-	-	-	3,721,098	-	-	-	3,721,098
Total contributions and distributions to owners		(6,200,379)	-	-	-	-	-	-	-	-	-	3,721,098	-	(86,404,232)	-	(88,883,513)
Disappropriation of non-controlling interest upon sale of subsidiaries	24	-	-	-	-	-	-	-	-	-	-	-	-	-	(129,176)	(129,176)
<b>Balance as of December 31, 2013</b>		<b>622,491,973</b>	<b>147,151,800</b>	<b>-</b>	<b>2,500,000</b>	<b>-</b>	<b>3,816,190</b>	<b>36,312,856</b>	<b>15,567,510</b>	<b>(7,200,065)</b>	<b>-</b>	<b>-</b>	<b>(2,860,893)</b>	<b>(6,359,719)</b>	<b>-</b>	<b>811,419,652</b>
Comprehensive income:																
Net income		-	-	-	-	-	-	-	-	-	-	-	-	76,814,666	-	76,814,666
Other comprehensive income:																
Actuarial valuation on define benefits		-	-	-	-	-	-	-	-	(738,259)	-	-	-	-	-	(738,259)
Cash flow hedges:																
Effective portion of changes in fair value		-	-	-	-	-	-	-	2,975,930	-	-	-	-	-	-	2,975,930
Reserve for valuation on investment on securities:																
Net changes on securities available for sale's valuation		-	-	-	-	-	-	-	5,045,110	-	-	-	-	-	-	5,045,110
Net gain on securities available-for-sale transferred to profit or loss		-	-	-	-	-	-	-	(4,387,400)	-	-	-	-	-	-	(4,387,400)
Total other comprehensive (loss) income		-	-	-	-	-	-	-	657,710	2,975,930	(738,259)	-	-	-	-	2,895,381
Total comprehensive (loss) income		-	-	-	-	-	-	-	657,710	2,975,930	(738,259)	-	-	76,814,666	-	79,710,047
Other equity transactions:																
Regulatory reserve for foreclosed assets		-	-	-	-	(723,604)	-	-	-	-	-	-	-	723,604	-	-
Regulatory reserve for insurance business		-	-	-	-	-	864,315	-	-	-	-	-	-	(864,315)	-	-
Dynamic reserve		-	-	-	73,717,784	-	-	-	-	-	-	-	-	(73,717,784)	-	-
Total other equity transactions		-	-	-	73,717,784	(723,604)	864,315	-	-	-	-	-	-	(73,858,495)	-	-
Contributions and distributions to owners																
Dividends paid - preferred stocks		-	-	-	-	-	-	-	-	-	-	-	-	(11,604,094)	-	(11,604,094)
Sur-tax		-	-	-	-	-	-	-	-	-	-	(1,742,398)	-	-	-	(1,742,398)
Total contributions and distributions to owners		-	-	-	-	-	-	-	-	-	-	(1,742,398)	-	(11,604,094)	-	(13,346,492)
<b>Balance as of December 31, 2014</b>		<b>622,491,973</b>	<b>147,151,800</b>	<b>-</b>	<b>2,500,000</b>	<b>73,717,784</b>	<b>3,092,586</b>	<b>37,177,171</b>	<b>16,225,220</b>	<b>(4,224,135)</b>	<b>(738,259)</b>	<b>-</b>	<b>(4,603,291)</b>	<b>(15,007,642)</b>	<b>-</b>	<b>877,783,207</b>

The notes on pages 8 to 118 are an integral part of these consolidated financial statements.

**Banistmo, S. A. and Subsidiaries**

**Consolidated Statement of Cash Flows  
For the year ended December 31, 2014  
(Figures in Balboa)**

	Note	2014	2013
<b>Operating activities</b>			
Net income		76,814,666	20,171,175
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	17	11,392,672	11,108,022
Amortization for softwares, projects and others		7,248,114	38,127,984
Provision for loan losses	15, 30	38,881,305	68,877,243
Other provisions	9	(583,050)	1,293,579
Net loss on financial instruments	8, 30	443,573	8,726,190
Amortization of discounts on investments		(19,888,249)	(22,266,229)
Loss on sale of subsidiaries, net	30	-	8,663,785
Expenses (income) by resolution on contingent on sale of subsidiaries	30	-	6,416,226
Gain on sale of fixed assets		245,036	(190,054)
Equity participation in associate		49,363	154,146
Income tax	11, 30	18,654,065	18,210,318
Interest and commission income		(388,780,917)	(464,099,687)
Interest expenses		129,269,854	150,757,661
Change on operating assets and liabilities:			
Time deposits on banks with maturity of more than 90 days		118,651,395	(76,514)
Securities at fair value with changes in profit or loss		(28,475,235)	275,257,186
Loans		(682,087,251)	183,000,876
Deposits		439,070,426	(1,016,663,101)
Other assets		37,503,873	(19,906,233)
Other liabilities		(54,696,040)	(63,562,563)
<b>Cash generated from operations</b>			
Interest received		386,603,319	466,750,326
Interest paid		(127,458,287)	(152,244,489)
Impuestos pagados		(259,231)	(29,086,627)
Net cash flows from operating activities		<u>(37,400,599)</u>	<u>(510,580,780)</u>
<b>Investing activities</b>			
Purchases of securities available for sale		(325,969,000)	(294,906,972)
Sales and redemptions of securities available for sale		369,141,120	450,825,491
Acquisition of property and equipment	17, 30	(6,411,708)	(23,738,351)
Sales of property and equipment		699,038	13,027,165
Sale (contribution) in investment in associates		370,628	(358,644)
Cash given on sale of subsidiaries, net cash received	30	-	(30,683,346)
Net cash flows from investing activities		<u>37,830,078</u>	<u>114,165,343</u>
<b>Financing activities</b>			
Bonds redemption		-	(2,127,443)
Financing		418,672,706	930,465,433
Payment of financing received		(631,041,791)	(601,397,242)
Return of capital	22	-	(6,200,379)
Dividends paid - common stocks		-	(75,696,983)
Dividends paid - preferred stocks		(11,604,094)	(10,707,249)
Sur-tax		(1,742,398)	3,721,098
Net cash flows from financing activities		<u>(225,715,577)</u>	<u>238,057,235</u>
Effect of exchange rate fluctuations on cash held		-	(37,229,312)
Net decrease in cash and cash equivalents		(225,286,098)	(195,587,514)
Cash and cash equivalents at beginning of year		<u>1,232,293,918</u>	<u>1,427,881,432</u>
Cash and cash equivalents at end of year	13	<u><u>1,007,007,820</u></u>	<u><u>1,232,293,918</u></u>

The notes on pages 8 to 118 are an integral part of these consolidated financial statements.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 1. General Information

Banistmo, S. A. (formerly HSBC Bank (Panama), S. A.), started operations on August 1<sup>st</sup>, 2004, under the laws of the Republic of Panama. The Superintendency of Banks of the Republic of Panama granted a general license that allows the Bank to perform banking activities in Panama and to conduct transactions that take effect or are consummated abroad as well as any other activity authorized by this Superintendency.

Banistmo, S. A. offers directly, and through its subsidiaries, (collectively, the "Bank") a great variety of financial services mainly to companies and individuals. In addition to corporate and retail banking services, the Bank offers lease financing, fiduciary and trust services, brokerage services, investment management and insurance and reinsurance services. The majority of these activities are subject to supervision by the regulatory authorities.

On February 19<sup>th</sup>, 2013, HSBC Latin America Holdings (UK) Limited, a wholly owned subsidiary of HSBC Holdings plc, announced that it reached an agreement to sell its subsidiary HSBC Bank (Panama), S. A. to Bancolombia, S. A. a Colombian banking group. On October 28<sup>th</sup>, 2013, the Bank was fully acquired by Bancolombia, S. A.

Through Resolution S.B.P No.0156-2013 of September 30<sup>th</sup>, 2013, the Superintendency of Banks of the Republic of Panama authorized to transfer 100% of the shares of HSBC Bank (Panama), S. A. and its subsidiaries under the terms of the proposed transaction, to Bancolombia, S. A. Such transfer was effectively on October 28<sup>th</sup>, 2013.

Through Resolution S.B.P. No.0167-2013 of October 25<sup>th</sup>, 2013, the Superintendency of Banks of the Republic of Panama authorized the change of corporate name from HSBC Bank (Panama), S. A. to Banistmo, S. A.

The banking operations, in the Republic of Panama, are subject to regulatory requirements of the Superintendency of Banks of Panama, pursuant Executive Decree No.52 of April 30<sup>th</sup>, 2008, which adopts the single text of the Law Decree No.9 of February 26<sup>th</sup>, 1998, as amended by Law Decree No.2 of February 22<sup>nd</sup>, 2008. The Superintendency of Banks of Panama has the authority, among other, to monitor, regulate and inspect banking operations.

The Bank's main office is located at Banistmo Plaza Marbella, Aquilino De La Guardia Avenue, Panama, and Republic of Panama. As of December 31<sup>th</sup>, 2014, the Bank and its subsidiaries had a total of 2,578 (2013: 2,477) employees.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 1. General Information (Continued)

Below is a brief description of the most important consolidated subsidiaries of Banistmo, S. A. based in Panama:

- *Financomer, S. A., Financiera Flash, S. A., Financomer Factoring, S. A., and Grupo Financomer, S. A.* primarily engaged in granting loans or finance facilities to individuals and corporate businesses. The Bank owns 100% of the issued and outstanding shares of these four subsidiaries. Financial operations in the Republic of Panama are regulated and supervised by the Ministry of Trade and Industry through the Directorate of Financial Companies, according to Decree Law No.42 of July 23<sup>rd</sup>, 2001. Financomer Factoring, S. A. was dissolved through Public Deed No.11,780 of May 28<sup>th</sup>, 2013.
- *Banistmo Investment Corporation, S. A. (formerly HSBC Investment Corporation (Panama), S. A.)* has a fiduciary license granted by the Superintendency of Banks of Panama; and an investment administrator license granted by the Market Securities Superintendency, later canceled through resolution No.83-14 of February 25<sup>th</sup>, 2014. The subsidiary is mainly engaged in administering trusts, and private funds, and offers escrow agent services. The Bank owns 100% of the issued and outstanding shares of Banistmo Investment Corporation S. A.
- *Seguros Banistmo, S. A. (formerly HSBC Seguros (Panama), S. A.)* has a license to operate in the insurance and reinsurance business, particularly general risks, guarantees and life policies. The insurance and reinsurance operations in Panama are regulated by the Superintendency of Insurance and Reinsurance, under the Insurance Law No. 12 of April 3<sup>rd</sup>, 2012 and the Reinsurance Law No. 63 of September 19<sup>th</sup>, 1996. The Bank owns 100% of the issued and outstanding shares of Seguros Banistmo, S. A.
- *Leasing Banistmo, S. A. (formerly HSBC Leasing, S. A.)* is mainly engaged in leasing activities. The Bank owns 100% of the issued and outstanding shares of Leasing Banistmo, S. A. The leasing activities in Panama are regulated by the Directorate of Financial Companies of the Ministry of Commerce and Industry pursuant to Law No.7 of July 10<sup>th</sup>, 1990.
- *Securities Banistmo, S. A. (formerly HSBC Securities (Panama), S. A.)* is a company incorporated under the laws of the Republic of Panama and engaged in brokerage activities. Under resolution No. B.S.031-01, the Securities Market Superintendency granted a license that allows the company to operate as a brokerage house. The Panamanian stock market is regulated by Law Decree 1 of July 8<sup>th</sup>, 1999. The Bank owns 100% of the issued and outstanding shares of Securities Banistmo, S. A.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 1. General Information (Continued)

Hereinafter, Banistmo, S. A. will be denominated as the “Bank.” All subsidiaries of the Bank will be denominated hereinafter as, the “Subsidiaries.”

Until October 2013, the Bank owned the subsidiary HSBC Colombia, S. A. and its subsidiary HSBC Fiduciary, S. A., private entities based in Bogota, Colombia. The purpose of the former entity is to perform banking operations and legal contracts allowed in the commercial banking institutions subject to the requirements and limitations of the Colombian laws. The principal purpose of the fiduciary entity consists in providing commercial trusts and fiduciary services with irrevocable transferring trust titles, in conformity to the legal dispositions of the Republic of Colombia. On October 17<sup>th</sup>, 2013 the transfer to HSBC Latin America Holdings (UK) and HSBC Finance (Netherlands) of the total investment in HSBC Colombia, S. A. and its subsidiary HSBC Fiduciaria, S. A. was fulfilled.

Additionally, the Bank has the following representation offices:

- *Representation Office in Guatemala:* by resolution No.507-2009 of July 3<sup>rd</sup>, 2009, the representation office of Banistmo, S. A. (formerly HSBC Bank (Panama), S. A.) in the Republic of Guatemala was registered at the Superintendency of Banks in Guatemala. The office promotes business and grants funding in the Guatemalan territory.
- *Representation Office in Nicaragua:* by resolution No.SIBOIF-XVII-144-2009 of May 26<sup>th</sup>, 2009 the representation office of Banistmo, S. A. (formerly HSBC Bank (Panama), S. A.) was registered at the Public Trading Registry of the Republic of Nicaragua. The office promotes business and grants funding in the Nicaraguan territory. On December 10<sup>th</sup>, 2014, it was requested to the Superintendency of Banks and Other Financial Institutions of Managua that the legal representation of the office be transferred to the lawyers in that jurisdiction, through a general power of attorney registered with the Public Trading Registry of Managua on December 11<sup>th</sup>, 2014.
- *Representation Office in Venezuela:* by means of communication SIB-DSB-CJ-OD-42198 of December 20<sup>th</sup>, 2011, the representation office of Banistmo, S. A. (formerly HSBC Bank (Panama), S. A.) in the Bolivarian Republic of Venezuela was registered at the Superintendency of Banking Institutions in Venezuela. It is currently in the process of closing. The application was filed on August 29<sup>th</sup>, 2014 and is expected to be approved by the regulator within the second quarter of 2015.

The consolidated financial statements have been approved for issuance by the Bank’s Board of Directors on February 13<sup>th</sup>, 2015.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 2. Basis of Preparation

(a) *Compliance Declaration*

The consolidated financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board – IASB and the respective interpretations to the International Financial Reporting Standards.

Note 33 gives an explanation of how the transition to the IFRS has affected the financial position, the financial performance and the cash flow of the Bank.

(b) *Basis of Measure*

The consolidated financial statements are prepared using the historical cost method, excluding hedge and financial instruments available for sale presented at fair value with changes in comprehensive (loss) income; financial instruments at fair value and derivatives recognized at fair value with changes in profit or loss, and assets and liabilities presented as available for sale recognized between the lesser of either its book value or its fair value less cost of sale. Those financial assets that have been designated as fair value hedge are adjusted by the changes in fair value attributed to the risk its covering.

(c) *Use of Estimates and Critical Assumptions*

In the preparation of the consolidated financial statements the Administration has made certain accounting estimates and critical assumptions, and has exercised its judgment in the process of application of the accounting policies of the Bank, which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

(d) *Functional Currency and of Presentation*

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

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies

The significant accounting policies applied consistently in the periods presented in the consolidated financial statements are summarized as follows:

(a) *Consolidation*

*Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

The Bank applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Bank. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Bank recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

#### (a) Consolidation (continued)

##### *Subsidiaries (continued)*

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the group's accounting policies.

##### *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

##### *Disposal of subsidiaries*

When the group ceases to have control of any retained interest in the entity, its fair value is re-measured at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purpose of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

##### *Structure Entities*

Structure entities (SEs) are entities created to accomplish a narrow and well-defined objective, such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. An SE is consolidated if, based on an evaluation on the substance of its relationship with the Bank and the risks and benefits of the SE, the Bank concludes that it controls the SE. The following circumstances may indicate a relationship in which, in essence, the Bank controls and therefore consolidates the SE:

- The activities of the SE are being conducted on behalf of the Bank according to its specific business needs thereby that the Bank obtains benefits from the SEs' operation.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 3. Summary of Significant Accounting Policies (Continued)

##### (a) Consolidation (continued)

###### Structure Entities (continued)

- The Bank has the decision-making powers to obtain the majority of the benefits of the activities of the SE or, by setting up an “autopilot” mechanism; the Bank has delegated these decision-making powers.
- The Bank has rights to obtain the majority of the benefits of the SE and, therefore, may be exposed to risks associated with the activities of the SE.
- The Bank retains the majority of the ownership and residual risks associated to the assets of the SE in order to obtain benefits from its activities.

The assessment of whether the Bank has control over an SE is carried out at inception and normally no further reassessment is performed in the absence of changes in the structure or conditions of the SE, or additional transactions between the Bank and the SE. Day-to-day changes in market conditions do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Bank and the SE, in such instances the Bank determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the Bank’s voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those originally established, change the relationship between the Bank and a SE, the Bank performs a reassessment of control over the SE.

##### (b) Foreign Currency Transactions

Foreign currency transactions are translated to Balboas (B/.) currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive (loss) income as qualifying cash flow hedges. Gains and losses are presented in the income statement within ‘Other (losses)/gains – net.’

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

#### *(b) Foreign Currency Transactions (continued)*

##### *Bank's Subsidiaries*

The results and financial position of all the subsidiaries of the Bank that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates;
- Equity components are translated at the historical rate; and
- All resulting exchange differences are recognized in other comprehensive income.

#### *(c) Offsetting*

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

#### *(d) Fair Value Measurement*

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price found in the active market. A market is regarded as active if asset or liability transactions take place with sufficient frequency and volume that provides pricing information on an ongoing basis.

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

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

#### *(d) Fair Value Measurement (continued)*

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. A gain or loss on the initial recognition is booked only if there is a difference between the fair value and the transaction price evidenced by other observable transactions in active markets with the same instrument or by valuation techniques with observable market data.

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

The Bank establishes a fair value hierarchy that categorizes into three levels of input data valuation techniques used for fair value measurement.

The fair value of financial assets and liabilities that are traded in an active market is based on quoted prices. For the other financial instruments the Bank determines the fair value using other valuation techniques.

Other valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which there are observable future prices in the market and other valuation models. The assumptions and inputs used in valuation techniques include risk-free rate reference, credit spreads and other assumptions used to estimate discount rates.

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

#### *(e) Cash and Cash Equivalents*

In the consolidated statement of cash flows, the Bank considers as cash and cash equivalents, cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

#### (f) *Derivative Financial Instruments*

The Bank uses derivative financial instruments, mainly foreign exchange forward contracts, as part of its operations, which are recognized in the consolidated statement of financial position at fair value.

The foreign exchange forward contracts are commitments to buy or sell foreign currencies at a specified price and an agreed future date.

Derivative instruments that are not related to a hedge strategy are classified as other assets or other liabilities and are recognized in the consolidated statement of financial position at their fair value. Changes in the value of these derivative financial instruments are recognized in the consolidated income statement.

The accounting treatment in relation to the fair value of these derivative financial instruments, designated in a qualifying hedge relationship, depends on each of the following category classifications:

- Fair value hedge  
Derivative instruments designated as fair value hedges are instruments that hedge the exposure to changes in the fair value of assets or liabilities recognized in the consolidated statement of financial position, or an identified portion of the value of those assets or liabilities attributable to the specific risk and that could affect the net result presented in the consolidated financial statements.

The hedging instruments are expressed at fair value with respect to the risk that is being covered. The changes in the value of these instruments are recognized in the consolidated income statement.

If the asset being hedged is classified as available for sale, the change in fair value of this investment is recognized in equity. From the date such asset has coverage through a derivative, the revaluation of the asset will be recognized in the consolidated income statement, and the balance for the revaluation recorded in the allowance will remain until the asset is sold or reaches its maturity date.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 3. Summary of Significant Accounting Policies (Continued)

##### (f) *Derivative Financial Instruments (continued)*

- Fair value hedge (continued)

If the asset or liability being hedged is carried at amortized cost, the book value should be adjusted to reflect the changes in fair value. The asset or liability should be carried as amortized cost as soon as the hedge relationship ends using the effective rate of return adjusted for the amortization computation. If the hedged asset carried at amortized cost has suffered an impairment loss, the loss will be computed based on the difference between the book value, after adjustments in changes in fair value of such asset as the result from the risk hedged, and the present value of the estimated discounted cash flows based on the adjusted effective rate of return.

- Cash flow hedge

Derivative instruments designated as cash flow hedge are instruments covering the exposure to cash flow variation associated with a previously recognized assets or liabilities or a transaction expected to be highly possible. The effective portion of any change in the fair value of the hedging instrument is recognized directly in other comprehensive income in equity, while the ineffective portion of any changes in fair value is recognized in the income statement under net loss on securities and derivatives account. Amounts accumulated in equity are reclassified to the consolidated income statement in the periods in which the hedge transaction affects the results of operations. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any remaining cumulative gain or loss existing in equity is recognized in the consolidated income statement under net loss on securities and derivatives account.

If a hedge of a forecasted transaction subsequently takes place after the recognition of an asset or liability, the related gains and losses that would have been recognized directly in equity are reclassified to income in the same period or periods during which the asset acquired or assumed liability affects the results of operations. The adjustment to the book value of a hedging instrument remains in equity until the disposal of the asset or liability.

In case it is considered that the forecasted transaction will not occur, the balance held in other comprehensive income is reclassified immediately to consolidated income statement.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

#### (f) *Derivative Financial Instruments (continued)*

- Derivatives without hedging

Derivatives that are not associated with a hedging strategy are classified as financial assets or financial liabilities at fair value. Changes in the valuation of these derivative instruments are recognized in the consolidated statement of income under net loss on securities and derivatives account.

#### (g) *Investment Securities*

The investment securities are classified on their trade date, and are initially measured at their fair value, plus the transaction incremental related costs and are then subsequently recognized based on the current classification of the instruments by taking into account the characteristics of the instrument and the intention for which they were acquired. The classifications used by the Bank are as follows:

- Securities at Fair Value through Profit and Loss: This category includes those securities acquired with the purpose of generating a short term profit resulting from the price fluctuation of the instrument. These securities are shown at their fair value and the changes in the fair value are recognized in the consolidated income statement in the period in which they are generated.
- Securities Available for Sale: This category includes securities acquired with the intention of holding them for an undetermined period, which may be sold in response to needs for liquidity, changes in interest rates, currency exchange rates or prices of investments. These securities are measured at their fair value and the changes in value are recognized directly in the consolidated statement of comprehensive income using a valuation account until the securities are sold or redeemed or it has been determined that a security has been impaired; in these cases, the cumulative gains or losses previously recognized in other comprehensive income is recognized in the consolidated income statement. Gains or losses on foreign exchange originated by securities available for sale are recognized in the consolidated income statement under net loss on securities and derivatives account.

When the fair value of equity securities cannot be reliably measured, the securities remain valued at cost.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 3. Summary of Significant Accounting Policies (Continued)

##### *(h) Impairment of Investments Available for Sale*

The Bank assesses at each consolidated statement of financial position date whether there is objective evidence that investment securities are impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss that has been directly recognized in equity, is removed from equity and recognized in the consolidated income statement.

If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statement. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income.

##### *(i) Loans*

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and originated generally by providing funds to a debtor as loans. Loans are initially measured at fair value plus the originating costs and any subsequent measurement at amortized cost utilizing the effective interest rate method, except when the Bank chooses to register the loans and advances at fair value with changes in profit or loss.

Finance leases are represented by equipment and automobile lease contracts, which are reported as part of the loan portfolio and recorded under the financial method, which presents the leases at the present value of the contracts. The difference between the gross lease receivable and the present value of the lease receivable is recognized as unearned interest income, and is amortized as interest income on loans during the period of the lease under the effective interest rate method.

Restructured or renegotiated loans consist of financial assets whose original terms and conditions, such as interests, monthly installments, or guarantees have been modified due to difficulties of repayment by the debtor.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

#### (j) *Loan Impairment*

At the date of the consolidated statement of financial position, the Bank assesses whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that the event (or events) of loss has an impact on the estimated future cash flows of the loan that can be estimated reliably. Objective evidence that a loan or group of loans is impaired includes observable data about the following events of loss: significant financial difficulty of the debtor; a breach of contract, such as delinquency in interest or principal payments; for economic or legal reasons related to financial difficulties of the borrower, the borrower is given a concession that would not be otherwise considered; probability that the borrower will enter into bankruptcy or other financial reorganization; or observable data indicating that there is a measurable decrease in the estimated future cash flows of a loan since initial recognition.

The Bank assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss exists or continues, are not included in a collective assessment of impairment.

The impairment loss of an individually significant loan is calculated by comparing the present value of future expected cash flows, discounted at the original effective interest rate of the loan, against its book value. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated according to contractual cash flows of the assets in the group, historical loss experiences for assets with credit risk characteristics similar to the group, and qualified views of the Administration on whether current economic and credit conditions are such that the actual level of inherent losses is likely to be higher or lower than the suggested historical experience.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

(j) *Loan Impairment (continued)*

When a loan is considered uncollectible, it is charged against the allowance for loan losses, which is presented as a deduction from loans receivable in the consolidated statement of financial position. The amount of impairment losses on loans is recognized as an expense in the consolidated income statement. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

(k) *Properties, Furniture, Equipment and Improvements*

Properties, furniture, equipment and improvements comprise land, buildings, furniture and improvements used by branches and offices. All properties, furniture, equipment and improvements are stated at historical cost less accumulated depreciation and amortization. Historical cost includes expenditure directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation and amortization expenses are recognized in the consolidated income statement using the straight-line method over the estimated useful life of the assets, except for land, which is not depreciated. The estimated useful lives of the assets are summarized as follows:

Properties	17 - 30 years
Improvements	10 years
Furniture and equipment	3 - 7 years
Computer equipment	3 - 5 years
Vehicles	4 years

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

(k) *Properties, Furniture, Equipment and Improvements (continued)*

The estimated useful life of assets are reviewed and adjusted, if appropriate, at each date of the consolidated statement of financial position. Properties, furniture, equipment and improvements are reviewed for impairment whenever events or changes in circumstances that indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

(l) *Goodwill*

Goodwill arises from the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognized directly in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGU (cash generating units), or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

#### *(m) Impairment of non-financial assets*

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

#### *(n) Deposits, Issued Debt and Equity Securities*

The deposits, issued debt and equity securities are the result of the resources that the Bank receives and are initially measured at fair value net of transaction costs. Subsequently, they are measured at amortized cost using the effective interest rate method except for those liabilities that the Bank decides to register at fair value with changes in profit or loss. The Bank classifies the equity instruments under financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

#### *(o) Borrowings*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

#### *(p) Financial Guarantees*

Financial guarantees are contracts that require the Bank to make specific payments on behalf of its clients, to reimburse the beneficiary of the guarantee if the customer fails to pay on the agreed date, according to the terms and conditions of the contract.

Financial guarantee liabilities are initially recognized at fair value; this initial value is amortized over the life of the financial security. Subsequently, the guarantee is recorded at the higher of the amortized amount and the present value of expected future payments. Financial guarantees are included in the consolidated statement of financial position under sundry creditors.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

#### *(q) Interest Income and Expense*

Interest income and expense are generally recognized in the consolidated income statement, for all financial instruments measured at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes all fees paid or received between parties of the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Transaction costs are origination costs, directly attributable to the acquisition, issuance or disposition of an asset or liability.

Under IAS 39 Financial Instruments: Recognition and Measurement, the accrued interest deferral on impaired loans is not required. Article 30 of the Agreement No. 4-2013 (and Article 18 of the previous Agreement No.6-2000) demand for the deferral of interest recognition when the Bank a) determines the deterioration in the client's financial condition, and/or b) the debtor has not made the originally agreed contractual payments over a number of days depending on the type of loan, and c) the Bank determines the uncertainty of recovering the totality of the overdraft in the absence of cancellation in a certain number of days.

#### *(r) Fees and Commission Income*

Generally, the commission and fees 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. The fees and commissions on medium and long-term transactions are deferred and amortized as income using the effective interest rate method over the life of the loan.

Loans commissions are included as loan commissions in the consolidated income statement.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

#### (s) *Insurance Operations*

Insurance operations are presented net, under net other income account. The written premiums of the insurance business are composed by the premiums on contracts that have been agreed during the year, whether fully or in part related with a subsequent financial year.

The corresponding liabilities from the insurance policies of individuals are managed in accordance with the basis of general insurance business, with the exception of individual and traditional life which revenues are recognized on cash received basis. The ceded reinsurance is recognized as an expense consistent with the recognition basis for insurance contracts.

The earned portion on written premiums is recognized as revenue. The premiums exclude any tax based on them. Premiums are earned from the date the risk is fixed, over the indemnity period. The ceded reinsurance is recognized as an expense consistent with the recognition basis for insurance contracts.

The estimated claims pending to be settled consist of all claims incurred but not yet paid at the date of the consolidated statement of financial position, reported or not, and the internal and external expenses related to the handling claims.

The fees paid to brokers and taxes paid on premiums are deferred in the consolidated statement of financial position as deferred acquisition costs according to their relationship with unearned premiums net of reinsurers.

Costs incurred in the acquisition of general insurance and life insurance contracts are deferred by whichever value is recoverable through future margins. Acquisition costs include direct costs on standard commissions as detailed in the technical notes for brokers or agents, and 2% tax on premiums.

#### (t) *Insurance provisions*

Insurance provisions are presented in sundry creditors insurance business account. Provisions are recognized when the subsidiary has a present legal or constructive obligation as a result of a past event; when it is probable that the entity requires an outflow of resources to settle the obligation; and when the estimated amount is deemed to be reliable. Failure to meet these three conditions, the entity shall not recognize a provision.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 3. Summary of Significant Accounting Policies (Continued)

(t) *Insurance provisions (continued)*

The mathematical provisions are adjusted to the formulas and technical basis approved by the Superintendency of Insurance and Reinsurance of Panama in the respective technical notes and reflect the net value of the obligations of insurance companies according to the current portfolio.

For universal life reserves the estimates on the policyholders' interest is included, represented by the premiums received to date together with interest and income earned, less expenses and service charges included. In traditional life reserves, the deferred net premiums and premiums receivable corresponding to the premium installments of the insurance have been subtracted.

The options and guarantees inherent in some insurance contracts that transfer significant insurance risk are not separated nor measured at fair value. These obligations are included as part of the mathematical provisions.

(u) *Net Income in Assets and Liabilities for Trading*

Net income in trading assets and liabilities is comprised of gains less losses related to such instruments and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences and are presented in the consolidated income statement.

(v) *Net Income from Other Financial Instruments at Fair Value*

Net income from other financial instruments at fair value relates to non-qualifying derivatives held for risk hedging management purposes and financial assets and liabilities for trading, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences and is presented in the consolidated income statement.

(w) *Dividends Income*

Dividends are recognized in the consolidated income statement when the entity has the right to receive the established payments.

(x) *Share-Based Compensation*

HSBC Bank (Panama), S. A. (currently Banistmo, S. A.) maintained a reward plan in shares of HSBC Holdings plc, for key executives based on each executive individual performance. That plan was canceled on October 28th, 2013.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

#### (x) *Share-Based Compensation (continued)*

The fair value at grant date of options delivered to staff is recognized as a personnel expense with a corresponding increase in equity, in the concession period. The amount recognized as an expense is adjusted to reflect the actual number of shares with a purchase option that is vested, so that the amount finally recognized as an expense is based on the number of stock options that comply with the related service and performance conditions out of the market on granting date.

The fair value of the amount payable to employees in relation to stock appreciation rights, which are agreed upon in cash, is recognized as an expense, with a corresponding increase in liabilities in the period in which employees are entitled unconditional payment. The liability is revalued at each balance sheet and settlement date. Any change in fair value of liabilities is recognized as personnel costs in profit or loss.

The fair value is determined using appropriate valuation models taking into consideration the terms and conditions under which the instrument was issued. The concession periods include service conditions and performance of the action.

#### (y) *Assets and Liabilities Classified as Held for Sale*

The disposal group of assets and liabilities expected to be recovered through a sale rather than through continuing use are classified as held for sale. Immediately before classifying them as held for sale, assets or components of a group of assets for disposal are valued again according to the Bank's accounting policies. Since this classification, they are recognized at the lower of carrying amount and fair value less costs to sell. An impairment loss is recognized for initial or subsequent reductions determined by the corresponding group of assets and liabilities. The impairment losses on initial and subsequent classification of assets and liabilities as held for sale are recognized in the consolidated income statement.

#### (z) *Discontinued Operations*

A discontinued operation is a component of the Bank that has been sold or disposed by other means, or has been classified as held for sale, and (i) represents a line of business or geographical area of operation that is significant and can be considered separately from the rest, (ii) is part of a singlecoordinated plan to sell or otherwise dispose of a line of business or geographical area of operation that is meaningful and can be considered separately from the rest, or (iii) is a subsidiary acquired exclusively with the intention to resell it.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

(z) *Discontinued Operations (continued)*

Classification as a discontinued operation occurs at the disposal of the operation or when it meets the criteria for classification as held for sale, whichever occurs first. When an operation is classified as discontinued, the comparative consolidated statements of income and comprehensive income are modified as if the operation would have been discontinued since the beginning of the comparative year.

A discontinued operation is initially measured at the lower of its carrying value and fair value less cost of sale, and an impairment loss for any initial or subsequent decrease in discontinued operations at fair value less cost of sale is recognized. A gain is recognized for any subsequent increases in fair value less cost of sale of an asset, but not in excess of the cumulative impairment loss that had been previously recognized.

(aa) Segment Information

A business segment is a component of the Bank. For the purpose of decision making, in relation to the resources allocated to the segment, its operating results are regularly reviewed by Management, for which financial information is readily available.

(ab) Share Capital and Reserves

Certain financial instruments are classified as equity instruments in accordance with the contractual terms of such instruments. The preferred stocks, not redeemable at a specific date by the shareholder's choice and that does not lead to dividend obligations, are presented as capital stocks. These financial instruments are presented as a component of stockholders' equity.

The originating costs directly attributable to the issue of the equity instrument are shown as a deduction from the original cost of such instruments.

Regulatory provisions required by the Superintendency of Banks of Panama and Superintendency of Insurance and Reinsurance of Panama are disclosed in Note 32.

(ac) *Earnings per Share*

Basic earnings per share measures the performance of the Bank's reporting period and is calculated dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

(ac) *Earnings per Share (continued)*

Diluted earnings per share reflect all the dilutive potential effects of ordinary shares, for the stock purchase under the stock option plan.

(ad) *Dividend Distribution*

The distribution of dividends to shareholders is recognized as a liability in the financial statements of the Bank in the period in which the dividends are approved by the Board of Directors.

(ae) *Employee Benefits*

The Panamanian labor law requires employers to constitute an Unemployment Fund, on behalf of the employees, to guarantee the seniority premium and compensation payment that the employee may be entitled in the event that the employment relationship ends due to unfair dismissal or resignation. The Fund is created based on the employee's seniority premium quoted quarterly based on 1.92% of the wages paid in the Republic of Panama and the 5% of the monthly compensation fee quoted quarterly as well. The quarterly contributions must be deposited in a trust. Such contributions are recognized as an expense in the income statement. The unemployment fund is held in a private trust and administered by an independent entity to the Bank and its subsidiaries.

(af) *Income Tax*

Estimated income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the consolidated statement of financial position date, and any other adjustment to tax payable in respect of previous years.

The deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if it arises from initial recognition of goodwill; the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit or taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to be applied when the related deferred tax asset is realized or the deferred tax liability is settled.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

*(af) Income Tax (continued)*

Deferred tax assets are recognized only to the extent that it is plausible that a future taxable gain will be available so that the temporary differences can be applied.

The assets and deferred tax liabilities are offset when there is a legal right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities derived from the gain of the same tax authority of the same taxable entity or different taxable entities have an intention to liquidate the balances on a net basis.

*(ag) Reserves for Contingent Credit Risks*

The Panamanian Bank uses the reserve method to provide for contingent losses of a credit nature. The reserve increases by a provision recognized as provision expense in the consolidated income statement, and is decreased by write offs related to the credit nature of these contingent losses.

*(ah) Trust Operations*

Trust assets or administered by the trustee are not considered part of the Bank, consequently, such assets and their corresponding income are not included in the consolidated financial statements. It is the obligation of the Bank to manage the trust resources according to the contracts and separately from their equity.

The Bank charges a fee for the trusteeship of the funds paid by the trustor based on the balance amount carried of the trust or the agreements between the parties. These fees are recognized in income according to the terms written on the trust agreements either monthly, quarterly or annually, on an accrual basis.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

(ai) *New International Financial Reporting Standards (IFRS) and Interpretations in force on the period 2014*

- Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Bank's financial statements.
- Amendments to IAS 36, 'Impairment of assets,' on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash generating units (CGUs), which had been included in IAS 36 by the issue of IFRS 13.
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Bank has applied the amendment and there has been no significant impact on the Bank's financial statements as a result.
- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The Bank is not currently subjected to significant levies so the impact on the Bank is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1<sup>st</sup>, 2014 are not material to the Bank.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

*(aj) New International Financial Reporting Standards (IFRS) and Interpretations not yet adopted*

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

- IFRS 9 Financial Instruments, replaces all the previous versions of IFRS 9 issued on the years 2009, 2010, and 2013 and completes the replacement of IAS 39. The most important impacts of this standard are as follows:
  - It eliminates volatility caused by changes in the credit risk of liabilities measured at fair value, which implies that the gains from the deterioration of the entity's credit risk on such obligations are not recognized in profit or loss but in equity.
  - To establish requirements for classifying and measuring financial assets classified in two primary measurement categories for financial assets: amortized cost and fair value. Existing categories in IAS 39 such as securities held-to-maturity, securities available for sale, loans and receivables values are removed.
  - A new impairment model based on "expected loss" that will require a more timely recognition of expected credit losses is presented.
  - An approach substantially renovated for hedge accounting, with improvements in risk management disclosures is given.

IFRS 9 is effective for annual periods beginning on or after January 1<sup>st</sup>, 2018. However, this rule can be adopted in advance.

- IFRS 14 Deferred Regulatory Accounts, published in January 2014, the objective of this standard is to specify the requirements of the balances of deferred regulatory accounts that arise when an entity provides goods or services to customers at a price or fee which is subject to rate regulation. A separate disclosure in both the statement of financial position and the income statement is required for the amount recognized. The standard is effective for annual periods beginning on or after January 1<sup>st</sup>, 2016.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 3. Summary of Significant Accounting Policies (Continued)

(aj) *New International Financial Reporting Standards (IFRS) and Interpretations not yet adopted (continued)*

- IFRS 15 Income from Contracts with Customers, published on May 28<sup>th</sup>, 2014, this new standard clarifies the principles for recognizing revenue from contracts with customers. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard is effective for annual periods beginning on or after January 1<sup>st</sup>, 2017.

By the nature of the financial operations of the Bank, the adoption of these standards will have a significant impact on the consolidated financial statements, something that is being evaluated by the Administration.

No other standards, amendments and interpretations issued that are not yet effective that could have a material impact on the Bank.

### 4. 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 activities are mainly related to the use of financial instruments including derivatives and, as such, the consolidated statement of financial position is comprised mainly of financial instruments.

The Board of Directors of the Bank and the Management of the Bank have the responsibility of establishing and monitoring the risk management policies of the financial instruments. For this purpose, they have established certain committees which are responsible for the management and periodic monitoring of risks to which the Bank is exposed; these committees are: Asset and Liability Managing Committee, Risk Committee, Audit Committee and Operational Risk Committee.

Additionally, the Panamanian Bank is subject to the regulations of the Superintendency of Banks of Panama, the Securities Market Superintendency, and the Superintendency of Insurance and Reinsurance of Panama concerning the concentrations of risks, liquidity and capitalization, among others.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 4. Financial Instruments Risk Management (Continued)

The Bank's Audit Committee oversees how management monitors compliance with the policies and risk management procedures and checks whether the risk management framework is appropriate for the Bank. This Committee is assisted by Internal Audit. It conducts periodic reviews of controls and risk management procedures, the results are reported to the Audit Committee.

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

#### *(a) Credit Risk*

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

To mitigate the credit risk, risk management policies establish the processes and controls to be followed for the approval of loans and granting of credit facilities.

The Committees assigned by the Board of Directors and Management of the Bank, watch periodically the financial condition of the respective debtors and issuers that involve a credit risk to the Bank.

The Bank has established certain procedures to manage the credit risk summarized as follows:

- *Establishment of Credit Policies*  
The credit policies, both for Retail Banking and Small and Medium Enterprises, as well as Business Banking and Government, are made in coordination with the business units and the risk unit through the approval of credit policies and Risk Committee, which in turn reports to the Board of Directors.
- *Establishment of Authorization Limits*  
Authorization limits are established in conjunction with the General Manager with the recommendation of the Risk Committee.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (Continued)

#### (a) Credit Risk (continued)

- Limits of Concentration and Exposure**  
 Limits of concentration and exposure, such as limits for specific industries, and limits for economic groups are established for those segments that are considered necessary by the Risk Committee, taking into consideration the level of capital of the Bank and the size of the credit portfolio and to comply with the banking regulation in Panama.
- Development and Maintenance of Risk Assessment**  
 Risk assessments are made individually for customers of Business and Government segments and portfolio and/or product for customers in the segments of Retail, Small and Medium Enterprises.
- Review of Policy Compliance**  
 The review of compliance of policies is done through annual evaluations of the commercial clients and through monthly sampling of the portfolio in the case of consumer clients. These assessments and samplings are periodically reviewed by the Audit Committee.

#### Credit Quality Analysis

The following table analyzes the credit quality of the Bank's financial assets (excluding accrued interest receivable), and the impairment/loss provisions.

	Loans			Investment in Securities			Contingencies of Credit Risk		January 1, 2013
	2014	2013	January 1, 2013	2014	2013	January 1, 2013	2014	2013	
<b>Maximum exposure</b>									
Net, carrying value	<u>6,177,950,039</u>	<u>5,534,463,821</u>	<u>5,620,479,277</u>	=	=	=	=	=	=
<b>Amortized cost</b>									
Normal	6,084,175,136	5,333,398,168	5,412,162,623	-	-	-	-	-	-
Special mention	90,293,404	160,132,440	228,809,096	-	-	-	-	-	-
Substandard	64,195,412	96,482,252	43,699,160	-	-	-	-	-	-
Doubtful	35,867,517	59,852,985	61,364,195	-	-	-	-	-	-
Unrecoverable	<u>29,767,222</u>	<u>7,975,027</u>	<u>5,838,550</u>	-	-	-	-	-	-
Gross amount	6,304,298,691	5,657,840,872	5,751,873,624	-	-	-	-	-	-
Allowance for impairment	(62,475,656)	(59,227,245)	(56,343,091)	-	-	-	-	-	-
Interests and commissions discounted	<u>(63,872,996)</u>	<u>(64,149,806)</u>	<u>(75,051,256)</u>	-	-	-	-	-	-
Net, carrying value	<u>6,177,950,039</u>	<u>5,534,463,821</u>	<u>5,620,479,277</u>	=	=	=	=	=	=

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (continued)

#### (a) Credit Risk (continued)

#### Credit Quality Analysis (continued)

	Loans			Investment in Securities			Contingencies with Credit Risk		
	2014	2013	January 1, 2013	2014	2013	January 1, 2013	2014	2013	January 1, 2013
<b>Available for sale</b>									
Investment grade	-	-	-	425,624,705	534,964,990	506,440,823	-	-	-
High risk	-	-	-	98,483,358	7,140,000	11,599,371	-	-	-
Net, carrying value	-	-	-	524,108,063	542,104,990	518,040,194	-	-	-
<b>With changes in results</b>									
Investment grade	-	-	-	193,631,138	161,593,127	425,872,521	-	-	-
Moderate risk	-	-	-	20,969,074	23,672,024	29,048,508	-	-	-
Carrying value	-	-	-	214,600,212	185,265,151	454,921,029	-	-	-
<b>Loans renegotiated</b>									
Gross amount	51,624,045	27,323,955	24,324,952	-	-	-	-	-	-
Impairment amount	2,591,215	7,609,058	7,497,396	-	-	-	-	-	-
Allowance for impairment	3,196,411	2,634,189	2,719,840	-	-	-	-	-	-
Net, carrying value	48,427,634	24,689,766	21,605,112	-	-	-	-	-	-
<b>Not in default or impaired</b>									
Normal	5,935,745,907	5,340,912,055	5,398,093,429	-	-	-	-	-	-
	5,935,745,907	5,340,912,055	5,398,093,429	-	-	-	-	-	-
<b>Not in default or impaired</b>									
30 to 60 days	82,887,559	102,308,447	160,381,788	-	-	-	-	-	-
61 to 90 days	95,981,597	100,577,415	80,559,152	-	-	-	-	-	-
90 to 180 days	66,076,933	36,147,002	42,029,082	-	-	-	-	-	-
180 days or more	57,971,956	10,067,941	3,607,428	-	-	-	-	-	-
	302,918,045	249,100,805	286,577,450	-	-	-	-	-	-
<b>Individually impaired</b>									
Doubtful	35,867,517	59,852,985	61,364,195	-	-	-	-	-	-
Unrecoverable	29,767,222	7,975,027	5,838,550	-	-	-	-	-	-
	65,634,739	67,828,012	67,202,745	-	-	-	-	-	-
<b>Allowance for impaired</b>									
Individual	44,134,953	35,005,546	29,515,619	-	-	-	-	-	-
Collective	18,340,703	24,221,699	26,827,472	-	-	-	-	-	-
Total allowance for impaired	62,475,656	59,227,245	56,343,091	-	-	-	-	-	-
<b>Commitment and contingencies</b>									
Normal	-	-	-	-	-	-	2,062,255,866	1,987,591,733	1,990,896,115
Net, carrying value	-	-	-	-	-	-	2,062,255,866	1,987,591,733	1,990,896,115

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 4. Financial Instruments Risk Management (continued)

#### (a) Credit Risk (continued)

As described in the previous table, the factors of greater risk exposure and information about impaired assets and the assumptions used for these disclosures are the following:

- Impairment of loans and investment in securities:  
Management determines if there is objective evidence of impairment on the loans, based on the following criteria established by the Bank:
  - Default or delinquency in interest or principal payments;
  - Observable data indicates that there is a measurable decrease in the estimated future cash flows;
  - Default on terms and conditions originally agreed;
  - Probability that they will enter bankruptcy or other financial reorganization;
  - Economic conditions that correlate with defaults; and
  - Impairment in the warranty value.
- Past due but not impaired:  
They are considered in default without deterioration, or not incurred losses, such as the loans and investments that have a level of guarantees and / or sources of payment sufficient to cover the carrying value of the loan and investment. The amounts disclosed in the table above exclude investments measured at fair value through profit or loss.
- Renegotiated loans:  
Renegotiated loans are those that have been restructured due to impairment in the debtor's financial condition, and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.
- Allowances for impairment:  
The Bank has established allowances for impairment that represent an estimate of the incurred losses in the loan portfolio. The main components of this allowance are related to individual risks and the allowance for losses on loans estimated on a group basis considering, a homogeneous group of assets in terms of incurred losses identified on loans subject to a specific impairment.
- Write-off policy:  
The Bank determines the write off of an individual loan or group of loans that are deemed uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (continued)

#### (a) Credit Risk (continued)

The table below shows the credit worthiness of term deposits and instruments classified as available for sale and securities at fair value through profit or loss (excluding accrued interest receivable). The analysis is based on the ratings assigned by credit rating agencies.

	2014	2013	January 1, 2013
<b>Term deposits</b>			
Investment grade	210,523,003	212,000,000	928,074,551
Speculative grade	10,000,000	33,913,653	11,032,565
Non-investment grade	<u>79,328,986</u>	<u>125,482,961</u>	<u>91,500,000</u>
	<u>299,851,989</u>	<u>371,396,614</u>	<u>1,030,607,116</u>
<b>Investment available for sale</b>			
<b>Corporate bonds</b>			
Investment grade	6,278,521	14,319,191	22,389,622
Non-investment grade	<u>7,140,000</u>	<u>7,140,000</u>	<u>11,599,371</u>
	<u>13,418,521</u>	<u>21,459,191</u>	<u>33,988,993</u>
<b>Government bonds</b>			
Investment grade	419,346,184	520,645,799	484,051,201
Non-investment grade	<u>91,343,358</u>	<u>-</u>	<u>-</u>
	<u>510,689,542</u>	<u>520,645,799</u>	<u>484,051,201</u>
<b>Investment at fair value through profit or loss</b>			
<b>Corporate bonds</b>			
Investment grade	3,502,941	-	-
Speculative grade	<u>2,150,556</u>	<u>-</u>	<u>-</u>
	<u>5,653,497</u>	<u>-</u>	<u>-</u>
<b>Government bonds</b>			
Investment grade	190,128,197	161,593,127	425,872,521
Speculative grade	<u>18,818,518</u>	<u>23,672,024</u>	<u>29,048,508</u>
	<u>208,946,715</u>	<u>185,265,151</u>	<u>454,921,029</u>
<b>Total</b>	<u>1,038,560,264</u>	<u>1,098,766,755</u>	<u>2,003,568,339</u>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 4. Financial Instruments Risk Management (continued)

##### (a) Credit Risk (continued)

In order to manage financial risk exposures of the investment portfolio, the Bank uses international classifications, as detailed below:

Credit Rating	International Rating	
	From	To
Investment grade	AAA	BBB-
Speculative grade	BB+	BB-
Non-investment grade	B+	C

Deposits placed with banks

At December 31, 2014, the Bank maintains deposits in banks for B/.299,851,989 (2013: B/.371,396,614). Deposits placed with financial institutions with investment grade (AAA to BBB-), based on international rating agencies, amounting to B/.210,523,003 (2013: B/.212,000,000). In the "Non-investment grade" are deposits in local financial institutions.

In the following table are the values of the collaterals of loans in default and already due (excluding accrued interest receivable):

	2014	2013	January 1, 2013
Cash	3,083,133	10,699,631	2,713,581
Properties	173,073,476	116,143,611	144,822,183
Equipments	14,230,201	7,083,516	7,653,147
Other	<u>16,271,801</u>	<u>17,108,601</u>	<u>6,673,104</u>
Total	<u>206,658,611</u>	<u>151,035,359</u>	<u>161,862,015</u>

Guarantees/collaterals and Financial Effect

The table below presents the main types of collateral taken with respect to various types of financial assets.

	% of exposure covered by guarantees or collaterals			Type of Collateral
	2014	2013	January 1, 2013	
Loans:	14%	14%	14%	Cash
	78%	68%	69%	Properties
	7%	7%	6%	Equipment
	1%	11%	11%	Other

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 4. Financial Instruments Risk Management (continued)

#### (a) Credit Risk (continued)

##### Mortgage loans

The table below presents credit exposure from residential mortgage loans by ranges of loan-to-value (LTV) ratio. The value of the loan or "loan to value" (LTV) is a mathematical equation that measures the ratio between what is lent and the value of the property that will be the subject (and collateral) of the loan. The gross amounts exclude any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination, and it is updated based on changes in collateral price index:

% LTV	2014	2013	January 1, 2013
Less than 50%	244,600,779	236,641,912	384,777,568
51-70%	507,717,255	477,047,076	179,189,606
71-90%	727,094,325	635,693,182	614,607,574
91-100%	141,530,972	108,884,574	145,880,519
More than 100%	<u>8,131,786</u>	<u>9,930,630</u>	<u>16,723,795</u>
	<u>1,629,075,117</u>	<u>1,468,197,374</u>	<u>1,341,179,062</u>

##### Corporate Loans

The overall credit quality of a corporate client tends to be the most relevant indicator of the credit quality of a loan. However, the collateral provides additional security and the Bank usually asks companies to provide it. The Bank does not routinely update the valuation of collaterals taken for a loan to corporate customers. Valuation of the collateral is updated when the credit risk of a loan is deteriorated significantly and the loan is monitored with more emphasis. For impaired loans, the Bank obtains collateral valuations because the current value of the collateral is an input to the impairment measurement. At December 31<sup>st</sup>, 2014, the net book value of impaired loans and undisbursed commitments summed up to B/.62,439,733 (2013: B/.126,454,302) (January 1<sup>st</sup> of 2013: B/.90,071,767) and the value of collateral for these loans and commitments amounted to B/.77,916,887 (2013: B/.37,519,011) (January 1<sup>st</sup>, 2013: B/.49,405,020).

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (continued)

#### (a) Credit Risk (continued)

##### Foreclosed Assets

The following table presents the financial and non-financial assets that the Bank took possession of collaterals to guarantee payment:

	2014	2013	January 1, 2013
Properties	2,161,600	3,820,975	4,077,126
Furniture and equipment	<u>704,020</u>	<u>193,900</u>	<u>214,898</u>
Total	<u>2,865,620</u>	<u>4,014,875</u>	<u>4,292,024</u>

The Bank's policy is to perform or execute the sale of these assets to cover the outstanding balances. Usually is not the Bank's policy to use non-financial assets for its own operations.

##### Concentration of Credit Risk

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

	Loans			Investment in Securities			Contingencies with Credit Risk		
	2014	2013	January 1, 2013	2014	2013	January 1, 2013	2014	2013	January 1, 2013
Carrying value	<u>6,177,950,039</u>	<u>5,534,463,821</u>	<u>5,620,479,277</u>	<u>738,708,275</u>	<u>727,370,141</u>	<u>972,961,223</u>	<u>2,062,255,866</u>	<u>1,987,591,733</u>	<u>1,990,896,115</u>
<b>Concentration by Sector</b>									
Corporate	3,035,755,115	2,846,381,452	3,076,341,462	19,072,018	21,459,191	33,988,993	712,918,270	889,964,018	1,355,287,267
Consumer	3,159,845,400	2,626,421,677	2,550,344,687	-	-	-	1,181,009,606	926,648,242	450,212,227
Government	<u>108,698,176</u>	<u>185,037,743</u>	<u>125,187,475</u>	<u>719,636,257</u>	<u>705,910,950</u>	<u>938,972,230</u>	<u>168,327,990</u>	<u>170,979,473</u>	<u>185,396,621</u>
	6,304,298,691	5,657,840,872	5,751,873,624	738,708,275	727,370,141	972,961,223	2,062,255,866	1,987,591,733	1,990,896,115
Less:									
Reserve	62,475,656	59,227,245	56,343,091	-	-	-	-	-	-
Interests and commissions not earned	<u>63,872,996</u>	<u>64,149,806</u>	<u>75,051,256</u>	-	-	-	-	-	-
Carrying value	<u>6,177,950,039</u>	<u>5,534,463,821</u>	<u>5,620,479,277</u>	<u>738,708,275</u>	<u>727,370,141</u>	<u>972,961,223</u>	<u>2,062,255,866</u>	<u>1,987,591,733</u>	<u>1,990,896,115</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (Continued)

#### (a) Credit Risk (continued)

#### Concentration of Credit Risk (continued)

	Loans			Investment in Securities			Contingencies with Credit Risk		
	2014	2013	January 1, 2013	2014	2013	January 1, 2013	2014	2013	January 1, 2013
<b>Geographic Concentration</b>									
Panama	5,768,405,087	5,121,555,133	5,006,297,204	455,789,709	537,949,289	517,988,902	1,753,932,029	1,671,595,045	1,471,091,349
Latin America and Caribbean	509,768,715	515,572,984	686,229,695	63,645,445	31,806,664	42,089,332	219,732,476	258,818,669	479,537,456
United States of America and Canada	26,124,889	20,712,755	45,747,316	219,273,121	157,614,188	412,882,989	27,908,693	22,814,899	-
Europe	-	-	6,506,085	-	-	-	35,551,173	20,913,432	40,267,310
Others	-	-	7,093,324	-	-	-	25,131,495	13,449,688	-
	<u>6,304,298,691</u>	<u>5,657,840,872</u>	<u>5,751,873,624</u>	<u>738,708,275</u>	<u>727,370,141</u>	<u>972,961,223</u>	<u>2,062,255,866</u>	<u>1,987,591,733</u>	<u>1,990,896,115</u>
Less:									
Reserve	62,475,656	59,227,245	56,343,091	-	-	-	-	-	-
Interests and commissions not earned	63,872,996	64,149,806	75,051,256	-	-	-	-	-	-
Carrying value	<u>6,177,950,039</u>	<u>5,534,463,821</u>	<u>5,620,479,277</u>	<u>738,708,275</u>	<u>727,370,141</u>	<u>972,961,223</u>	<u>2,062,255,866</u>	<u>1,987,591,733</u>	<u>1,990,896,115</u>

The geographic concentrations of loans and deposits in financial institutions are based on the debtor's location. In relation to the geographic concentration for investments, it is based on the issuer's location.

#### (b) Liquidity or Financing Risk

Liquidity risk is defined as the potential loss due to the difficulty to liquidate assets or obtain funding under normal conditions to meet its obligation associated with its liabilities. Liquidity risk may be affected by factors, such as: an unexpected withdrawal of funds by creditors or customers, the deterioration of the quality of the loan portfolio, the devaluation of securities, the excessive concentration of liabilities from one particular source, a gap between assets and liabilities, a shortage of asset liquidity, or the mismatch of long-term asset financing with short-term liabilities.

Risk liquidity management policies establish a minimum level of liquid assets in order to meet the obligations or liabilities of the Bank.

#### Management of Liquidity Risk:

Risk management policies establish a liquidity limit in order to determine the amount of the Bank's assets that should be maintained in high liquidity instruments; as well as financing limits, leverage limits and duration limits.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 4. Financial Instruments Risk Management (Continued)

#### *(b) Liquidity or Financing Risk (continued)*

##### Management of Liquidity Risk: (continued)

The Bank is exposed to daily requirements on its available daily cash resources, demand deposits, time deposits, loan disbursements and guarantees, and margin requirements settled in cash.

The Board of Directors and Bank Management, have established minimum liquidity levels on the minimum proportion of available funds to comply with such requirements and on the minimum level of inter-banking facilities and other loan facilities that should exist to cover withdrawals in unexpected levels of demand. The Bank holds a short-term assets portfolio, comprised mainly by liquid instruments, loans and advances from banks and other inter-banking facilities to ensure holding enough liquidity.

##### Exposure to Liquidity Risk:

The methodology for measuring liquidity risk of the various positions of balance, both active and passive, is to project the expected future cash flows of both capital and interest; some positions are affected by indicators to convert contractual flows expected cash flows. The flows are located in defined time bands and is calculated the difference between assets and liabilities flows, obtaining the liquidity gap for different time horizons; where the exhaust liquid assets with minimum negative liquidity bands Horizon Survival is obtained.

The Board and Bank Management have established minimum levels of liquidity on the proportion of funds available to meet the regulatory liquidity requirements, and the minimum level of interbank facilities and other borrowing facilities that should be in place to cover unexpected withdrawals on demand.

Following are the liquid assets' rate over deposits received from customers, under the guidelines of regulatory liquidity required by the Superintendency of Banks of Panama, at the date of the consolidated financial statements:

	2014	2013	January 1, 2013
Panama			
Average of the year	46.19%	49.35%	53.38%
Maximum of the year	52.81%	56.31%	67.78%
Minimum of the year	41.34%	43.32%	48.75%

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (Continued)

#### (b) Liquidity or Financing Risk (continued)

##### Exposure to Liquidity Risk: (continued)

The following table analyzes financial assets and liabilities (excluding accrued interest receivable and payable), on maturity groupings based on the remaining period from the date of the consolidated statement of financial position until the contractual maturity date, affected by rates obtained by expected cash flows for the time deposits (affected by renovation indicators) and the demand deposits:

2014	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Without term	Carrying value
<b>Assets:</b>							
Cash and cash effects	122,988,552	-	-	-	-	-	122,988,552
Deposits in banks	771,467,895	110,835,794	11,160,884	-	-	-	893,464,573
Net, loans	619,255,773	459,581,288	852,670,499	1,492,682,674	2,753,759,805	-	6,177,950,039
Investment in securities	56,431,654	113,998,670	43,545,914	326,388,376	198,343,661	16,921,659	755,629,934
<b>Total assets</b>	<b>1,570,143,874</b>	<b>684,415,752</b>	<b>907,377,297</b>	<b>1,819,071,050</b>	<b>2,952,103,466</b>	<b>16,921,659</b>	<b>7,950,033,098</b>
<b>Liabilities:</b>							
Demand deposits	1,635,872,410	-	-	-	-	-	1,635,872,410
Savings deposits	1,562,597,451	-	-	-	-	-	1,562,597,451
Time deposits	360,222,586	242,606,991	983,086,822	1,110,944,141	-	-	2,696,860,540
Interbank deposits	123,029,913	29,579,951	19,982,898	-	-	-	172,592,762
Borrowings	96,093,123	246,372,726	205,629,312	478,191,172	-	-	1,026,286,333
<b>Total liabilities</b>	<b>3,777,815,483</b>	<b>518,559,668</b>	<b>1,208,699,032</b>	<b>1,589,135,313</b>	<b>-</b>	<b>-</b>	<b>7,094,209,496</b>
<b>2013</b>							
	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Without term	Carrying value
<b>Assets:</b>							
Cash and cash effect	120,779,253	-	-	-	-	-	120,779,253
Deposits in banks	1,032,457,240	79,057,425	128,096,700	-	-	-	1,239,611,365
Investment in securities	142,274,129	151,050,327	269,848,217	96,681,266	67,516,202	17,163,493	744,533,634
Net, loans	375,076,658	368,970,525	903,426,110	1,446,892,193	2,440,098,335	-	5,534,463,821
Investments in associate	-	-	-	-	-	425,021	425,021
<b>Total assets</b>	<b>1,670,587,280</b>	<b>599,078,277</b>	<b>1,301,371,027</b>	<b>1,543,573,459</b>	<b>2,507,614,537</b>	<b>17,588,514</b>	<b>7,639,813,094</b>
<b>Liabilities:</b>							
Demand deposits	1,357,544,173	-	-	-	-	-	1,357,544,173
Saving deposits	1,484,555,262	-	-	-	-	-	1,484,555,262
Time deposits	358,738,253	320,639,300	1,005,730,079	923,359,122	-	-	2,608,466,754
Interbank deposits	132,645,366	5,251,081	40,090,100	300,000	-	-	178,286,547
Borrowings	1,338,757	216,500,000	783,793,360	237,023,301	-	-	1,238,655,418
<b>Total liabilities</b>	<b>3,334,821,811</b>	<b>542,390,381</b>	<b>1,829,613,539</b>	<b>1,160,682,423</b>	<b>-</b>	<b>-</b>	<b>6,867,508,154</b>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (Continued)

#### (b) Liquidity or Financing Risk (continued)

##### Exposure to Liquidity Risk: (continued)

January 1, 2013	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Without term	Carrying value
<b>Assets:</b>							
Cash and cash effects	159,577,614	-	-	-	-	-	159,577,614
Deposits in banks	903,822,630	148,503,006	12,020,186	116,000,000	-	-	1,180,345,822
Investment in securities	156,727,836	278,331,156	57,040,191	92,686,674	388,175,366	13,490,679	986,451,902
Net, loans	553,722,194	528,029,345	940,747,099	1,212,898,812	2,385,081,827	-	5,620,479,277
Investment in associates	-	-	-	-	-	221,270	221,270
Assets available for sale	-	-	1,195,498,178	-	-	-	1,195,498,178
<b>Total assets</b>	<b>1,773,850,274</b>	<b>954,863,507</b>	<b>2,205,305,654</b>	<b>1,421,585,486</b>	<b>2,773,257,193</b>	<b>13,711,949</b>	<b>9,142,574,063</b>
<b>Liabilities:</b>							
Demand deposits	1,579,443,840	-	-	-	-	-	1,579,443,840
Saving deposits	1,535,267,273	-	-	-	-	-	1,535,267,273
Time deposits	632,229,592	272,866,434	1,054,226,687	899,196,178	-	-	2,858,518,891
Interbank deposits	154,063,858	26,121,075	102,130,915	46,000,000	-	-	328,315,848
Borrowings	-	50,000,000	370,000,000	509,961,768	-	-	929,961,768
Liabilities available for sale	-	-	1,000,169,738	-	-	-	1,000,169,738
<b>Total liabilities</b>	<b>3,901,004,563</b>	<b>348,987,509</b>	<b>2,526,527,340</b>	<b>1,455,157,946</b>	<b>-</b>	<b>-</b>	<b>8,231,677,358</b>

Management has made estimates of the liquidations of certain monetary assets and liabilities that have no contractual maturity date. The off balance sheet items, such as letters of credit, guarantees, loan commitments, among others, have been fully included in this analysis of liquidity. Based on historical experience, the Management does not expect that all of these commitments will result in disbursements.

The following table shows the undiscounted future cash flows of the Bank's financial liabilities on the basis of their earliest possible contractual maturity date. The expected cash flows from these instruments can vary significantly:

2014	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Nominal gross amount (outflows/inflows)	Carrying value
Demand deposits	1,635,872,410	-	-	-	-	1,635,872,410	1,635,872,410
Saving deposits	1,562,597,451	-	-	-	-	1,562,597,451	1,562,597,451
Time deposits	371,252,618	256,141,962	1,026,419,876	1,342,748,319	-	2,996,562,775	2,696,860,540
Interbank deposits	123,052,031	29,729,138	20,372,827	-	-	173,153,996	172,592,762
Borrowings	96,297,716	246,621,669	205,965,055	482,630,952	-	1,031,515,392	1,026,286,333
<b>Total liabilities</b>	<b>3,789,072,226</b>	<b>532,492,769</b>	<b>1,252,757,758</b>	<b>1,825,379,271</b>	<b>-</b>	<b>7,399,702,024</b>	<b>7,094,209,496</b>
Loan commitments	213,827,769	119,181,716	623,092,223	227,766,515	-	1,183,868,223	1,183,868,223
Letter of credits	16,019,148	45,021,760	4,594,427	67,230	-	65,702,565	65,702,565
Guarantees, endorsements	154,194,282	24,187,972	375,609,078	253,905,594	4,788,152	812,685,078	812,685,078
	<b>384,041,199</b>	<b>188,391,448</b>	<b>1,003,295,728</b>	<b>481,739,339</b>	<b>4,788,152</b>	<b>2,062,255,866</b>	<b>2,062,255,866</b>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 4. Financial Instruments Risk Management (Continued)

##### (b) Liquidity or Financing Risk (continued)

##### Exposure to Liquidity Risk: (continued)

	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Nominal gross amount (outflows/inflows)	Carrying value
<b>2013</b>							
Demand deposits	1,357,544,173	-	-	-	-	1,357,544,173	1,357,544,173
Saving deposits	1,484,555,262	-	-	-	-	1,484,555,262	1,484,555,262
Time deposits	360,821,879	321,947,375	1,025,383,580	1,054,282,130	-	2,762,434,964	2,608,466,754
Interbank deposits	132,680,816	5,404,872	40,769,555	315,067	-	179,170,310	178,286,547
Borrowings	<u>1,338,757</u>	<u>216,592,986</u>	<u>790,441,758</u>	<u>238,397,523</u>	-	<u>1,246,771,024</u>	<u>1,238,655,418</u>
<b>Total liabilities</b>	<u>3,336,940,887</u>	<u>543,945,233</u>	<u>1,856,594,893</u>	<u>1,292,994,720</u>	-	<u>7,030,475,733</u>	<u>6,867,508,154</u>
Loan commitments	199,027,276	50,775,166	152,772,982	576,374,838	-	978,950,262	978,950,262
Letter of credits	25,405,355	28,765,051	33,747,729	35,795,554	-	123,713,689	123,713,689
Guarantees, endorsements	<u>13,437,326</u>	<u>1,406,139</u>	<u>270,459,535</u>	<u>598,251,731</u>	<u>1,373,051</u>	<u>884,927,782</u>	<u>884,927,782</u>
	<u>237,869,957</u>	<u>80,946,356</u>	<u>456,980,246</u>	<u>1,210,422,123</u>	<u>1,373,051</u>	<u>1,987,591,733</u>	<u>1,987,591,733</u>
<b>January 1, 2013</b>							
Demand deposits	1,579,443,840	-	-	-	-	1,579,443,840	1,579,443,840
Saving deposits	1,535,267,273	-	-	-	-	1,535,267,273	1,535,267,273
Time deposits	632,451,837	273,793,961	1,074,480,191	1,011,830,299	-	2,992,556,288	2,858,518,891
Interbank deposits	154,083,546	26,131,148	104,081,288	46,226,807	-	330,522,789	328,315,848
Borrowings	-	<u>50,018,833</u>	<u>370,805,991</u>	<u>524,445,560</u>	-	<u>945,270,384</u>	<u>929,961,768</u>
<b>Total liabilities</b>	<u>3,901,246,496</u>	<u>349,943,942</u>	<u>1,549,367,470</u>	<u>1,582,502,666</u>	-	<u>7,383,060,574</u>	<u>7,231,507,620</u>
Loan commitments	414,175,968	20,865,933	63,891,209	216,000	-	499,149,110	499,149,110
Letter of credits	98,897,885	77,709,103	73,235,202	6,683,940	-	256,526,130	256,526,130
Guarantees, endorsements	<u>33,934,628</u>	<u>22,580,853</u>	<u>341,506,565</u>	<u>837,198,829</u>	-	<u>1,235,220,875</u>	<u>1,235,220,875</u>
	<u>547,008,481</u>	<u>121,155,889</u>	<u>478,632,976</u>	<u>844,098,769</u>	-	<u>1,990,896,115</u>	<u>1,990,896,115</u>

Additional disclosures about commitments and contingencies are included in Note 25.

##### (c) Market Risk

Is the risk that the value of a financial asset of the Bank is reduced as a result of changes in interest rates, foreign currency exchange rates, stock prices, and other financial variables, as well as the reaction of market participants to political and economic events that expose the Bank to a latent losses and potential gains. The objective of market risk management is to manage and control market risk exposures, within acceptable parameters, while optimizing the return on risk.

The assessment of market risk is done periodically using the measurements of VaR (Value at Risk) and PVBP (it is affected by interest rate sensitivity, is a measurement used to describe how a change of one basis point rates interest affects the market value of an instrument) for the book of Treasury, for which exposure limits are defined, in addition to monitoring maximum loss limits. The review of compliance with these limits is carried out on a daily basis through reports sent to those responsible for monitoring this risk and submitted monthly to Senior Management.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 4. Financial Instruments Risk Management (Continued)

#### (c) Market Risk (continued)

##### Management of Market Risk

The following table presents a summary of the calculation of VaR for the portfolio of Banistmo, S. A. at the date of the consolidated financial statements which takes into account the interest rate risk and exchange rate risk:

	<b>2014</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
VaR total	<u>3,463,904</u>	<u>3,093,132</u>	<u>4,272,895</u>	<u>1,969,050</u>
	<b>2013</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
VaR total	<u>3,944,897</u>	<u>3,073,829</u>	<u>3,949,468</u>	<u>2,340,135</u>

The Bank uses stress tests on the model to measure the financial impact on several scenarios related to history or hypothetical events.

PVBP is a risk measurement that determines the change in the present value of all the future flows of the assets and liabilities of the Bank against a basic point of change through the entire curve. The following table presents the calculation of PVBPs portfolio at the date of the consolidated financial statements:

	<b>2014</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
PVBP	<u>52,075</u>	<u>61,991</u>	<u>102,320</u>	<u>21,273</u>
	<b>2013</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
PVBP	<u>45,654</u>	<u>53,364</u>	<u>111,026</u>	<u>4,500</u>

The following points present a detailed composition and analysis of each of the types of market risks:

- Exchange rate risk:  
Is the risk that the value of a financial instrument fluctuates as a consequence of the variations of the foreign currency exchange rates and other financial variables as well as the reaction of the market participants to political and economic events.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (Continued)

#### (c) Market Risk (continued)

- Exchange rate risk: (continued)

In order to control the risk that arises from future transactions over recognized financial assets and liabilities, the Bank uses forward foreign currency contracts negotiated by the Treasury, who is responsible for managing the net position and exposure of each foreign currency using external contracts of foreign currency.

The Bank maintains operations of financial instruments in the consolidated statement of financial position, agreed in foreign currencies, which are presented in their equivalent value in Balboas as follows:

2014	Costa Rica Colon	Mexico Peso	Other Currencies	Total
Cash and deposits in financial institutions	8,326,340	698,759	43,024,363	52,049,462
Securities at fair value through profit or loss	-	172,894,547	-	172,894,547
Securities available for sale	-	-	1,955,370	1,955,370
Accumulated interest receivable	88,590	-	6,819	95,409
Customers' liabilities under acceptances	-	-	3,043,468	3,043,468
<b>Total assets</b>	<b>8,414,930</b>	<b>173,593,306</b>	<b>48,030,020</b>	<b>230,038,256</b>
Receivable deposits	8,904,784	-	43,541,834	52,446,618
Accumulated interest payable	32,549	-	2,267	34,816
Outstanding acceptances	-	-	3,043,468	3,043,468
<b>Total liabilities</b>	<b>8,937,333</b>	<b>-</b>	<b>46,587,569</b>	<b>55,524,902</b>
<b>Net position in the consolidated financial statement</b>	<b>(522,403)</b>	<b>173,593,306</b>	<b>1,442,451</b>	<b>174,513,354</b>
2013	Costa Rica Colon	Mexico Peso	Other Currencies	Total
Cash and deposits in financial institutions	31,129,722	817,597	41,314,078	73,261,397
Securities at fair value through profit or loss	7,381,050	157,614,188	-	164,995,238
Securities available for sale	-	-	1,983,217	1,983,217
Net, loans	-	-	2,087,685	2,087,685
Accumulated interest receivable	452,783	-	6,749	459,532
Customers' liabilities under acceptances	-	-	1,603,443	1,603,443
<b>Total assets</b>	<b>38,963,555</b>	<b>158,431,785</b>	<b>46,995,172</b>	<b>244,390,512</b>
Receivable deposits	20,884,500	-	42,136,936	63,021,436
Accumulated interest payable	51,567	-	2,473	54,040
Outstanding acceptances	-	-	1,603,443	1,603,443
<b>Total liabilities</b>	<b>20,936,067</b>	<b>-</b>	<b>43,742,852</b>	<b>64,678,919</b>
<b>Net position in the consolidated financial statement</b>	<b>18,027,488</b>	<b>158,431,785</b>	<b>3,252,320</b>	<b>179,711,593</b>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (Continued)

#### (c) Market Risk (continued)

- Exchange rate risk: (continued)

January 1, 2013	Costa Rica Colon	Mexico Peso	Other Currencies	Total
Cash and deposits in financial institutions	18,475,290	277,145	73,949,813	92,702,248
Securities at fair value through profit or loss	28,047,857	412,882,989	-	440,930,846
Securities available for sale	-	-	1,070,860	1,070,860
Net, loans	-	-	791,101	791,101
Accumulated interest receivable	566,805	-	14,767	581,572
Customers' liabilities under acceptances	-	-	2,643,631	2,643,631
<b>Total assets</b>	<u>47,089,952</u>	<u>413,160,134</u>	<u>78,470,172</u>	<u>538,720,258</u>
Receivable deposits	24,617,915	-	74,646,719	99,264,634
Accumulated interest payable	370,174	-	9,135	379,309
Outstanding acceptances	-	-	2,643,631	2,643,631
<b>Total liabilities</b>	<u>24,988,089</u>	<u>-</u>	<u>77,299,485</u>	<u>102,287,574</u>
<b>Net position in the consolidated financial statements</b>	<u>22,101,863</u>	<u>413,160,134</u>	<u>1,170,687</u>	<u>436,432,684</u>

As of December 31<sup>st</sup>, 2014, the column of "Other Currencies" includes: Euros, Yens, Swiss Francs, British Pounds, Canadian Dollars, Swedish Crowns, Danish Crowns, Norwegian Crowns, Guatemalan Quetzals, Australian Dollars, Hong Kong Dollars, Singapore Dollars, Dominican Peso, Nicaraguan Cordoba, South African Rand, Offshore Yuan (China), Yuan Renminbi, Strong Bolivar and Colombian Pesos.

- Risk of the cash flow interest rate and the fair value:  
The interest rate risk of the cash flow and the interest rate risk of the 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.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (Continued)

#### (c) Market Risk (continued)

- Risk of the cash flow interest rate and the fair value: (continued)

The following table summarizes the Bank's exposure to interest rate risks. The assets and liabilities (excluding accrued interest receivable and payable) of the Bank are included in the table at their carrying value, classified by categories based on the earlier of contractual reprising rate or maturity dates:

2014	Until 1 month	From 1 to 3 months	from 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
<b>Assets:</b>						
Deposits in banks	179,570,890	110,835,794	9,445,305	-	-	299,851,989
Net, loan	805,766,757	1,130,114,182	1,451,938,632	394,423,677	2,395,706,791	6,177,950,039
Investment in securities	187,923,262	235,583,100	227,970,830	36,347,529	50,883,554	738,708,275
<b>Total assets</b>	<b>1,173,260,909</b>	<b>1,476,533,076</b>	<b>1,689,354,767</b>	<b>430,771,206</b>	<b>2,446,590,345</b>	<b>7,216,510,303</b>
<b>Liabilities:</b>						
Demand deposits	1,635,872,410	-	-	-	-	1,635,872,410
Saving deposits	1,562,597,451	-	-	-	-	1,562,597,451
Time deposits	360,222,586	242,606,991	983,086,823	1,110,944,140	-	2,696,860,540
Interbank deposits	123,029,913	29,579,951	19,982,898	-	-	172,592,762
Borrowings	96,093,123	246,372,726	205,629,312	478,191,172	-	1,026,286,333
<b>Total liabilities</b>	<b>3,777,815,483</b>	<b>518,559,668</b>	<b>1,208,699,033</b>	<b>1,589,135,312</b>	<b>-</b>	<b>7,094,209,496</b>
<b>Total interest rate sensibility</b>	<b>(2,604,554,574)</b>	<b>957,973,408</b>	<b>480,655,734</b>	<b>(1,158,364,106)</b>	<b>2,446,590,345</b>	<b>122,300,807</b>
2013	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
<b>Assets:</b>						
Deposits in banks	164,242,489	79,057,425	128,096,700	-	-	371,396,614
Net, loans	943,292,217	743,921,120	1,249,277,123	394,405,769	2,203,567,592	5,534,463,821
Investment in securities	157,390,494	181,970,542	238,972,924	83,620,426	65,415,755	727,370,141
<b>Total assets</b>	<b>1,264,925,200</b>	<b>1,004,949,087</b>	<b>1,616,346,747</b>	<b>478,026,195</b>	<b>2,268,983,347</b>	<b>6,633,230,576</b>
<b>Liabilities:</b>						
Demand deposits	1,357,544,173	-	-	-	-	1,357,544,173
Saving deposits	1,484,555,262	-	-	-	-	1,484,555,262
Time deposits	358,738,253	320,639,300	1,005,730,079	923,359,122	-	2,608,466,754
Interbank deposits	132,645,366	5,251,081	40,090,100	300,000	-	178,286,547
Borrowings	1,338,757	216,500,000	783,793,360	237,023,301	-	1,238,655,418
<b>Total liabilities</b>	<b>3,334,821,811</b>	<b>542,390,381</b>	<b>1,829,613,539</b>	<b>1,160,682,423</b>	<b>-</b>	<b>6,867,508,154</b>
<b>Total interest rate sensibility</b>	<b>(2,069,896,611)</b>	<b>462,558,706</b>	<b>(213,266,792)</b>	<b>(682,656,228)</b>	<b>2,268,983,347</b>	<b>(234,277,578)</b>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (Continued)

#### (c) Market Risk (continued)

- Risk of the cash flow interest rate and the fair value: (continued)

January 1, 2013	Until 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
<b>Assets:</b>						
Deposits in banks	754,083,924	148,503,006	12,020,186	116,000,000	-	1,030,607,116
Net, loans	585,967,493	1,145,206,221	1,465,426,794	361,478,454	2,062,400,315	5,620,479,277
Investment in securities	236,345,079	318,176,023	277,370,991	59,476,133	81,592,997	972,961,223
<b>Total assets</b>	<u>1,576,396,496</u>	<u>1,611,885,250</u>	<u>1,754,817,971</u>	<u>536,954,587</u>	<u>2,143,993,312</u>	<u>7,624,047,616</u>
<b>Liabilities:</b>						
Demand deposits	1,579,443,840	-	-	-	-	1,579,443,840
Saving deposits	1,535,267,273	-	-	-	-	1,535,267,273
Time deposits	632,229,592	272,866,434	1,054,226,687	899,196,178	-	2,858,518,891
Interbank deposits	154,063,858	26,121,075	102,130,915	46,000,000	-	328,315,848
Borrowings	-	50,000,000	370,000,000	509,961,768	-	929,961,768
<b>Total liabilities</b>	<u>3,901,004,563</u>	<u>348,987,509</u>	<u>1,526,357,602</u>	<u>1,455,157,946</u>	<u>-</u>	<u>7,231,507,620</u>
<b>Total interest rate sensibility</b>	<u>(2,324,608,067)</u>	<u>1,262,897,741</u>	<u>228,460,369</u>	<u>(918,203,359)</u>	<u>2,143,993,312</u>	<u>392,539,996</u>

As of December 31, 2014, the deposits of clients' earned annual interest rates is the following: 2.50% to 8.90% (2013: 2.50% to 7.60%).

The Bank has defined a range of limits to monitor the sensitivity of financial assets and liabilities in order to control de interest rate risk. The estimated impact of change of interest by category, is performed under the assumption of the increase or decrease of 100 basis points (bps) on financial assets and liabilities. The table presented below reflects the impact of changes in the interest rate.

	2014 100pb of increase	2014 100pb of decrease
Investment	(14,075,967)	14,075,967
Interbank deposits and loans	1,714,043	(1,714,043)
Client loans	(50,990,843)	50,990,843
Client deposits	53,159,000	(53,159,000)
Derivative financial instruments	(21,700)	21,700
<b>Total</b>	<u>(10,215,467)</u>	<u>10,215,467</u>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 4. Financial Instruments Risk Management (Continued)

(c) *Market Risk (continued)*

- Risk of the cash flow interest rate and the fair value: (continued)

	<b>2013 100pb of increase</b>	<b>2013 100pb of decrease</b>
Investment	(11,134,607)	11,134,607
Interbank deposits and loans	1,916,234	(1,916,234)
Client loans	(46,409,989)	46,409,989
Client deposits	46,838,900	(46,838,900)
Derivative financial instruments	<u>(4,700)</u>	<u>4,700</u>
Total	<u>(8,794,162)</u>	<u>8,794,162</u>

	<b>January 1, 2013 100pb of increase</b>	<b>January 1, 2013 100pb of decrease</b>
Investments	(15,173,921)	15,173,921
Interbank deposits and loans	49,764,324	(49,764,324)
Client loans	(63,493,960)	63,493,960
Client deposits	19,431,100	(19,431,100)
Derivative financial instruments	<u>(31,000)</u>	<u>31,000</u>
Total	<u>(9,503,457)</u>	<u>9,503,457</u>

- Price risk:  
Is the risk that the value of a financial instrument fluctuates as a consequence of the changes in market prices, independently if they are caused by specific factors relative to the particular instrument or its issuer, or to factors that affect all negotiable instruments in the market.

The Bank is exposed to the price risk of the equity instruments classified as available for sale or as securities at fair value with changes in profit or loss. To mitigate the price risk derived from the investments in equity instruments, the Bank diversifies its portfolio as per the established limits.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 4. Financial Instruments Risk Management (continued)

#### *(d) Operational Risk*

The operational risk is the risk of direct or indirect loss, arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and of generally accepted corporate standards behavior.

The Bank's objective is to manage operational risk, seeking the avoidance of financial losses and damages to the Bank's reputation.

The primary responsibility for the development and implementation of controls on operational risk is assigned to senior management within each business unit. This responsibility is supported, by the development of overall Bank standards to manage the operational risk, in the following areas:

- Aspects about the adequate segregation of functions, including independence in the authorization of transactions.
- Requirements about the adequate monitoring and reconciliation of transactions.
- Compliance with regulatory and legal requirements.
- Documentation of Bank's controls and processes.
- Periodic assessments of the application of operational risk, and the adequate controls and procedures about the risk identified.
- Reporting of operational losses and the proposals for the solution of those losses.
- Development of a contingency plan.
- Development of training for the Bank's staff.
- Application of ethical standards in the business.
- Development of activities to mitigate the risk, including security policies.

Compliance of the Bank's standards is supported by a program of periodic reviews undertaken by the Internal Audit Vice Presidency. The results of these reviews are discussed with the responsible personnel of each business unit, with summaries submitted to the Audit Committee and the Bank's Risks Committee.

#### *(e) Capital Management*

The Bank's regulators, the Superintendency of Banks of Panama and the Securities Market Superintendency, require the Bank to maintain an indicator of total capital measured against average assets.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 4. Financial Instruments Risk Management (continued)

#### (e) Capital Management (continued)

The Panamanian Bank analyzes its regulatory capital considering the following two tiers, in conformity with management's interpretation of the Basel Accord which is included in the standards of the Superintendency of Banks of Panama Agreement 5-2008 of October 1<sup>st</sup>, 2008, for General License Banks; which prescribes the following:

- Primary Capital (Tier 1): It includes the paid-in share capital, declared reserves, retained earnings and the shares representing the non-controlling equity accounts of consolidating subsidiaries' capital accounts.

The declared reserves are those identified by the Bank as Capital Reserve to strengthen its financial position, arising from retained earnings in its books and subject to the provisions of Article 69 of the Banking Law.

The retained earnings are the non-distributed profits or accumulated deficit of the current period and prior periods.

Similarly, the dynamic reserve is part of regulatory capital, only if it does not replace or offset the capital adequacy requirements established by the Agreement 5-2008; this is set in the Agreement 4-2013 of May 28<sup>th</sup>, 2013.

- Secondary Capital (Tier 2): It includes general reserves for losses, undeclared reserves and revaluation reserves. The sum of the items counted as secondary capital is limited to a maximum of 100% of the sum of the primary capital.

The calculation of the amount of Capital Funds of a Bank with a General License has to take into consideration the deductions, which will take place quarterly, and that are shown as follows:

- The non-consolidated capital assigned to branches abroad.
- The paid capital of not consolidated subsidiaries of the Bank.
- The paid capital of the non-banking subsidiaries. The deduction will include the recorded amounts on the asset for the greater of either the amount paid or the accounting value on the permanent investment of the entities in the country and abroad.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 4. Financial Instruments Risk Management (continued)

#### *(e) Capital Management (continued)*

- Secondary Capital (Tier 2): (continued)
  - Entries of assets corresponding to expenses or other entries that in virtue of the generally accepted accounting principles and the International Financial Reporting Standards correspond to over-valuations or various forms of non-recognized losses as well as incurred losses during any moment of the period.

The reserves that have to be maintained in relation to what is indicated on the secondary capital, are composed in the following manner:

- General reserves for losses:  
Provisions that have not been required to the Banks with General License by legislations, regulations, or the Superintendency of Banks of Panama or such, that exceed those required by the Superintendency of Banks of Panama, the regulations or legislations. The general reserves are not intended to cover risks that can be presented in the assets, nor do they correspond to real or contingent payment obligations. They do not have a specific purpose. The general reserves can only be computed as secondary capital up to an amount equivalent to 1.25% of the weighted assets in function of their risks.

Once the general reserves are computed as part of the secondary capital, the banks cannot reduce them if by doing so they infringe the adequacy ratio established in Article 69 of Law Decree 2 of 2008 or the other margins and legal limits or established regulatory requirements with respect to Capital Funds.

- Non-declared reserves:  
They consist in part of the retained earnings after taxes, as long as they are of the same quality of the declared reserves. As such, they are immediately and completely stated to be available to absorb unforeseen future losses and are not taxed for any obligation. However, in contrast to the declared reserves, these do not have a specific purpose and are left to be recorded in a special reserve account.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 4. Financial Instruments Risk Management (continued)

#### *(e) Capital Management (continued)*

- Secondary Capital (Tier 2): (continued)
  - Revaluation reserves:  
It relates to those that result from the revaluation of available for sale securities to be recorded at their market value. It is not permitted to include in this entry those securities received as payment of credit obligations by the banks during the ordinary course of operations.

The sum of the computed elements as secondary capital will be limited to a maximum of 100% of the sum of the primary capital elements.

The Capital Funds of a bank with a General License cannot be less than 8% of its weighted assets in function of its risks. For these purposes, the assets have to be considered net of their respective provisions or reserves and with the indicated weights on Agreement 5-2008 of the Superintendency of Banks of Panama.

The applicable capital standards for credit risk to banks were established with the Agreement 5-2008, which was amended in Article 4 of Agreement 4-2009.

In the case of branches and subsidiaries of Panamanian banks with a General License, the banks should comply with the adequacy ratio on a consolidated basis, including its branches and banking subsidiaries that consolidate.

The Bank's policy is to ensure a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business within the market and to sustain the levels of required shareholder's return and recognizing the need to maintain a balance between the placed investments and transactions, and the adequacy of capital required by the regulators.

The Bank's operations in each country have complied with each individual regulatory requirement.

The general resolution SBP GDJ 0003 2013 established that the regulatory reserve must not be considered as capital funding for the calculation of the capital adequacy ratio.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 4. Financial Instruments Risk Management (continued)

#### (e) Capital Management (continued)

The Bank maintains a regulatory capital position that is composed as follows, as reported to the Superintendency of Banks of Panama for the year ended December 31, 2014:

	2014	2013	January 1, 2013
<b>Primary Capital (Tier 1)</b>			
Capital	622,491,973	622,491,973	628,692,352
Preferred shares	147,151,800	147,151,800	147,151,800
Retained earnings (accumulated deficit)	(15,007,642)	(6,359,719)	57,147,626
Complementary tax	(4,603,291)	(2,860,893)	(6,581,991)
Dynamic reserve	73,717,784	-	-
Capital reserve	2,500,000	2,500,000	6,429,539
Non-controlling interest	-	-	122,878
Less:			
Goodwill	66,739,678	66,739,678	80,150,238
Loss for foreign currency translation	<u>-</u>	<u>-</u>	<u>(37,229,313)</u>
Total	<u>759,510,946</u>	<u>696,183,483</u>	<u>790,041,279</u>
<b>Secondary Capital (Tier 2)</b>			
Subordinated debt	<u>-</u>	<u>-</u>	<u>18,318,619</u>
Total regulatory capital	<u>759,510,946</u>	<u>696,183,483</u>	<u>808,359,898</u>
Total risk weighted assets	<u>5,598,619,660</u>	<u>5,011,587,480</u>	<u>7,027,373,075</u>
<b>Capital ratios</b>			
Total regulatory capital expressed as a percentage of risk weighted assets	<u>13.6%</u>	<u>13.9%</u>	<u>11.5%</u>
Tier 1 total expressed as a percentage of risk weighted assets	<u>13.6%</u>	<u>13.9%</u>	<u>11.2%</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 4. Financial Instruments Risk Management (continued)

#### (e) Capital Management (continued)

As part of the sale of its operations in Central America and Colombia, Banistmo, S. A. (formerly HSBC Bank (Panama), S. A.), defined a plan to reduce the level of equity for amounts that supported operations in the referred locations. According to a plan established by Management, a non-objection was requested to the Banking Regulator to proceed with implementation of the defined plan.

By note received No. SBP-DJ-N-5045-2013 on October 17, 2013 the non-objection of the capital reduction plan was received by the Superintendency of Banks of Panama.

Following is the amount of capital reduction and dividends paid during 2013:

Capital	6,200,379
Retained earnings (dividends paid on common shares)	<u>75,696,983</u>
Total	<u>81,897,362</u>

#### Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated, based on their primary activities, is part of the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases, the capital requirements may be flexible to reflect different risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum capital required for regulatory purposes.

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank's Risk and Credit groups, and is subject to review by the Management of Assets and Liabilities Committee.

In addition, maximization of the return on risk-adjusted capital is the main criterion used in determining how capital is allocated within the Bank to particular operations or activities, and how associated decisions are taken in regards to the management of resources and the achievement of strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors and Bank Management.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 5. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Bank's management in the preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards has made judgement, estimates and assumptions, which affect the application of accounting policies and the amounts reported of the assets, liabilities, income and expenses during the period. Therefore, the estimations and decisions are continuously evaluated and are based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank's management assesses the selection, disclosure and application of estimation of greater uncertainty in critical accounting policies. Information regarding the assumptions and estimates that affect the reported amounts of assets and liabilities within the following fiscal period and the critical judgments in the selection and application of the accounting policies are described below:

#### *(a) Losses on Loans Impairment*

The Bank reviews its loan portfolio to evaluate impairment at least on a quarterly basis. The Bank makes decisions to record an impairment loss in the consolidated statement of results, based on the evidence that indicates that impairment exists that can be measured in the estimated future cash flows of a loan portfolio, before the impairment can be identified in an individual loan in the portfolio. This evidence includes observable information that indicates that there has been an adverse change in the payment condition of the borrower in a group, or national and local economic conditions that correlate to defaults in the group's assets. The Administration determines estimates based on the experience of historical losses by assets with credit risk characteristics and objective evidence of similar deterioration to those in the portfolio when its future cash flows are programmed. The methodology and assumptions used to estimate the amount and the time of the future cash flows are reviewed regularly to reduce any difference between the loss estimates and the current loss experience.

#### *(b) Fair Value of Financial Instruments*

The fair values of the financial instruments that are not quoted in the active markets are determined using valuation techniques with reference to observable data. When the valuation techniques (for example, models), are used to determine the fair value, they are validated and approved by the respective authority. All the models are evaluated and adjusted before being used, and the models are calibrated to assure that the results reflect the present information and comparative prices of the market.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 5. Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

(c) *Impairment of Investments in Equities Classified as Available for Sale*

The Bank determines that equity investments available for sale are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires a decision. In addition, the impairment can be appropriate when evidence of impairment exists in the financial condition of the issuer, performance of the sector or industry, changes in technology and financial and operative cash flows.

(d) *Income tax*

Determining the provision for income taxes requires significant estimates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. In the event of a tax audit, the Bank recognizes anticipated obligations based on estimates of taxes that will be adequate. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### 6. Segment Information

Segment information is presented for the Bank's line of business and geographic segment, as detailed below:

By line of business

The Bank's operations include support services from its parent company and controllers companies. The costs of these functions are distributed to the various lines of business under systematic and consistent basis, where appropriate. In addition, revenues and expenses generated by these segments and the interactions among them in the normal course of operations, and which have a financial impact on its results, are considered in this distribution as an integral part of the Group.

By geographical segment

Information by geographical segment is classified by the jurisdiction of the main operations of each subsidiary with respect to the location of the office responsible for reporting the results or to control such operations.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 6. Segment Information (Continued)

The composition of business segments is presented as follows:

	2014 (in thousands)					Total
	Personal Financial Services	Commercial Banking	Global Market	Private Banking	Other and Inter-group Eliminations	
Interests and commissions income	292,449	173,199	(78,882)	2,015	-	388,781
Interests and provisions expenses	174,955	103,291	(113,172)	2,494	-	167,568
Other income	42,270	16,735	2,186	4,750	-	65,941
General and administrative expenses	<u>116,014</u>	<u>55,463</u>	<u>21,762</u>	<u>-</u>	<u>-</u>	<u>193,239</u>
Net income before income tax	<u>43,750</u>	<u>31,180</u>	<u>14,714</u>	<u>4,271</u>	<u>-</u>	<u>93,915</u>
Total assets	<u>3,722,707</u>	<u>3,477,535</u>	<u>2,431,804</u>	<u>78,354</u>	<u>(1,392,861)</u>	<u>8,317,539</u>
Total liabilities	<u>3,281,630</u>	<u>1,577,492</u>	<u>2,506,616</u>	<u>74,018</u>	<u>-</u>	<u>7,439,756</u>
	2013 (in thousands)					
	Personal Financial Services	Commercial Banking	Global Market	Private Banking	Other and Inter-group Eliminations	Total
Interests and commissions income	175,264	138,274	36,267	43,134	200	393,139
Interests and provisions expenses	115,594	38,281	(22,917)	37,148	728	168,834
Other income (expense)	61,412	3,281	(2,619)	428	(2,338)	60,164
General and administrative expenses	<u>95,850</u>	<u>53,573</u>	<u>18,768</u>	<u>4,914</u>	<u>54,963</u>	<u>228,068</u>
Net income before income tax	<u>25,232</u>	<u>49,701</u>	<u>37,797</u>	<u>1,500</u>	<u>(57,829)</u>	<u>56,401</u>
Loss for the year from discontinued operations, net of income tax	<u>(5,318)</u>	<u>(6,703)</u>	<u>(3,165)</u>	<u>(40)</u>	<u>146</u>	<u>(15,080)</u>
Total assets	<u>2,895,852</u>	<u>3,009,438</u>	<u>2,477,740</u>	<u>819,072</u>	<u>(1,140,055)</u>	<u>8,062,047</u>
Total liabilities	<u>2,602,711</u>	<u>1,853,540</u>	<u>1,974,132</u>	<u>819,399</u>	<u>845</u>	<u>7,250,627</u>

The composition of geographical segments is presented as follows:

	2014 (in thousands)		Total
	Panama	Colombia	
Interests and commissions income	388,781	-	388,781
Interests and provisions expenses	167,568	-	167,568
Other income	65,941	-	65,941
General and administrative expenses	<u>193,239</u>	<u>-</u>	<u>193,239</u>
Net income before income tax	<u>93,915</u>	<u>-</u>	<u>93,915</u>
Total assets	<u>8,317,539</u>	<u>-</u>	<u>8,317,539</u>
Total liabilities	<u>7,439,756</u>	<u>-</u>	<u>7,439,756</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 6. Segment Information (continued)

	2013 (in thousands)		Total
	Panama	Colombia	
Interests and commissions income	393,139	-	393,139
Interests and provisions expenses	168,834	-	168,834
Other income	60,164	-	60,164
General and administrative expenses	<u>228,068</u>	<u>-</u>	<u>228,068</u>
Net income before income tax	<u>56,401</u>	<u>-</u>	<u>56,401</u>
Loss for the year from discontinued operations, net of income tax	<u>(20,856)</u>	<u>5,776</u>	<u>(15,080)</u>
Total assets	<u>8,062,047</u>	<u>-</u>	<u>8,062,047</u>
Total liabilities	<u>7,250,627</u>	<u>-</u>	<u>7,250,627</u>

### 7. Fees, Other Commissions and Other Income

The detail of the income from fees, other commissions, and other income is presented as follows:

	2014	2013
Fees and other commissions on:		
Transfers	25,835	31,510
Trusts management	1,022,956	1,994,114
Custody	105,729	87,410
Letters of credit and documentary collections	9,361,789	13,654,786
Debit and credit cards	48,052,326	45,450,251
Banking services	19,875,722	20,293,029
Others	<u>894,575</u>	<u>1,613,186</u>
	<u>79,338,932</u>	<u>83,124,286</u>
Net other income:		
Net income on insurance business operations	14,411,244	12,019,122
Banking services	59,655	74,212
Recoveries	12,040	54,053
Gain on sale of foreclosed assets	1,698,399	927,614
(Loss) gain on sale of property, plant and equipment	(245,036)	145,301
Other income	<u>5,936,390</u>	<u>6,144,849</u>
	<u>21,872,692</u>	<u>19,365,151</u>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 8. Net Loss in Securities and Derivatives

The net loss in securities and derivatives, included in the consolidated income statement is presented as follows:

	2014	2013
Loss on derivative contracts	(6,629,172)	(8,371,597)
Net gain in securities at fair value	435,010	670,265
Net unrealized gain on securities at fair value through profit or loss	424,816	883,780
Net realized gain on securities available for sale (Note 14)	4,387,400	1,504,639
Loss on sale of subsidiary	(5,030)	(748)
Gain in currency conversion	36,550	20,660
Net (loss) gain in foreign exchange currency	(11,557)	6,860
Dividends over investment available for sale	<u>918,410</u>	<u>540,634</u>
	<u>(443,573)</u>	<u>(4,745,507)</u>

#### 9. Expenses and Other Provisions

The detail of other provisions, commissions, salaries and other personnel expense and other expenses is detailed as follows:

	2014	2013
Reversal of provision for litigation	(158,493)	926,184
Reversal of provision for foreclosed assets	(424,557)	(218,854)
Other provisions	<u>-</u>	<u>586,249</u>
	<u>(583,050)</u>	<u>1,293,579</u>
Commissions expense:		
Brokerage commissions	87,804	157,007
Credit cards	31,922,929	30,332,039
Banking correspondent services	596,090	424,196
Other commissions	<u>2,220,191</u>	<u>6,666,995</u>
	<u>34,827,014</u>	<u>37,580,237</u>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 9. Expenses and Other Provisions (continued)

	2014	2013
Salaries and other personnel costs:		
Salaries	60,406,057	54,433,047
Labor benefits	7,476,741	6,724,484
Employees' benefits	8,350,383	10,100,985
Share-based compensation	-	2,591,135
Seniority premium and compensation	4,441,528	4,088,949
Training	1,179,525	1,009,899
Others	<u>722,384</u>	<u>602,848</u>
	<u>82,576,618</u>	<u>79,551,347</u>
Other expenses:		
Insurance	1,435,197	314,173
Paper and office supplies	1,665,935	2,610,270
Electricity and communications	7,808,526	6,680,061
Cleaning and maintenance	6,000,921	6,832,391
Taxes other than income	7,259,817	7,296,851
Transportation	874,050	544,652
Cash transportation	584,559	466,475
Security	2,279,577	1,616,113
Business travel and meetings	1,109,093	576,424
Regional office charges	14,861,393	20,361,431
Others	<u>13,391,708</u>	<u>23,694,079</u>
	<u>57,270,776</u>	<u>70,992,920</u>

#### 10. Share-Based Compensation Plan

The Bank had an award plan of shares of HSBC Holdings plc, for key executives based on the individual performance of each completed year of service.

This plan was canceled on October 28<sup>th</sup>, 2013; however, a provision of B/.939,907 was created and on December 31<sup>st</sup>, 2014 the balance is B/.56,872 to meet future commitments already agreed.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 11. Taxes

The income tax returns of the Bank and its subsidiaries are subject to examination by the local tax authorities for the last three (3) years, including the year ended December 31<sup>st</sup>, 2014, in accordance with current tax regulations.

In accordance with current tax regulations, companies incorporated in Panama are exempt from income taxes on profits derived from foreign operations, interest earned on deposits with banks operating in Panama, and investment securities issued by the Government of Panama and the securities listed by the Securities Market Superintendency and traded through the Panama Stock Exchange.

By Official Gazette No.26489-A, Law No.8 was published on March 15<sup>th</sup>, 2010 which amends the income tax rates. For financial institutions and subsidiaries, the current interest tax rate is 25% since January 1<sup>st</sup>, 2014 (2013: 27.5%).

The Law No.52 as of August 2012 reinstated the payment of the estimated income tax from September 2012. According to that law, the estimated income tax should be paid in three equal amounts during the months of June, September and December of each year.

The Law No.8 of March 15<sup>th</sup>, 2010 introduced the method of presumptive taxation stating that legal entities which earn income in excess of one million five hundred thousand dollars (B/.1,500,000) must determine its taxable base in an amount whichever is greater of: (a) the net taxable income calculated by the ordinary method established in the Tax Code and (b) the net taxable income resulting from applying four point sixty-seven percent (4.67%) to the total taxable income.

Legal entities that incur in losses due to the presumptive income tax method or, if its effective rate when applying the presumptive method exceeds the tax rate applicable to net taxable income under the ordinary method for the fiscal period, may request to the Fiscal Authority an authorization to calculate the tax under the ordinary method.

The Law No.33 of June 30<sup>th</sup>, 2010, amended by Law No.52 of August 28<sup>th</sup>, 2012, added Chapter IX to Title I of Book Fourth of the Tax Code, denominated Adequacy Standards to the Treaties or Agreement for the Avoidance of Double International Taxation, establishing the regime of transfer pricing applicable to the taxpayer that perform transactions with related parties abroad. These taxpayers must determine their income, cost and deductions for tax purposes in their tax returns, based on the price or amount that independent parties would have agreed upon under similar circumstances in conditions of free competition, using the methods set out in the referred Act 33.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 11. Taxes (continued)

This law establishes the obligation to present information of transactions with related parties (Report 930 within six months after the end of the corresponding fiscal year, as well as to have, at time of submission of report, with a transfer pricing study that supports the statement by the report 930). This study should be provided at the request of the Fiscal Authority, within 45 days counted from the notification of the requirement. The failure to file the information return will result in a penalty equal to one (1%) of the total value of transactions carried out with related parties.

As disclosed in Note 27 to these financial statements, the Bank entered into transactions with related parties. Since fiscal year 2012, the Bank is obligated to comply with the report even if its related parties are residents of countries with which the Republic of Panama has not signed these agreements.

The detail of the income tax expense, on continuing operations is as follows:

	<b>2014</b>	<b>2013</b>
Income tax:		
Current period	19,443,224	16,078,053
Prior-period adjustments	(789,159)	400,408
Deferred income tax for temporary differences	<u>(1,504,013)</u>	<u>4,825,885</u>
	<u>17,150,052</u>	<u>21,304,346</u>

Based on the actual and projected results, Management of the Bank and its subsidiaries considers that there will be sufficient taxable income to absorb the deferred taxes that are described in the consolidated statement of financial position.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 11. Taxes (continued)

The reconciliation of financial income before income tax and the tax on current income from continuing operations is as follows:

	2014	2013
Net financial income before income taxes, including participation in equity in associate	93,964,718	56,555,532
Foreign earnings, exempt and non-taxable, net	(78,738,699)	(102,946,342)
Non-deductible costs and expenses	61,977,013	104,614,387
Losses carried over from prior years	<u>-</u>	<u>(25,496)</u>
Net taxable income	<u>77,203,032</u>	<u>58,198,081</u>
25% (2013: 27.5%) income tax at traditional rate	19,300,758	16,004,472
Effects from the application of different local tax rates	<u>142,466</u>	<u>73,581</u>
Current income tax	<u>19,443,224</u>	<u>16,078,053</u>
Effective tax rate of net income:		

	2014	2013
Net income before tax income, including equity participation in associates	93,964,718	56,555,532
Tax expense over net income	<u>17,150,052</u>	<u>21,304,346</u>
Effective tax rate of net income	<u>18.25%</u>	<u>37.67%</u>

The deferred income tax assets and liabilities are detailed below:

	2014			2013			January 1, 2013		
	Asset	Liability	Net	Asset	Liability	Net	Asset	Liability	Net
Allowance for uncollectable loans	15,584,213	-	15,584,213	14,761,271	-	14,761,271	15,000,850	-	15,000,850
Allowance for doubtful accounts of insurance premiums	-	-	-	-	-	-	379,817	-	379,817
Reserve for foreclosed assets	-	-	-	-	-	-	3,674,263	-	3,674,263
Provision for credit card rewards and litigations	1,805,103	-	1,805,103	1,862,888	119,285	1,982,173	2,565,492	-	2,565,492
Deferred commissions	-	-	-	-	(693,829)	(693,829)	(883,621)	-	(883,621)
Unearned premium reserve	-	-	-	-	(278,524)	(278,524)	(24,361)	-	(24,361)
Several insurance reserve	52,018	-	52,018	-	166,230	166,230	50,766	-	50,766
Liabilities for intangible asset	<u>(50,841)</u>	<u>-</u>	<u>(50,841)</u>	<u>(50,841)</u>	<u>-</u>	<u>(50,841)</u>	<u>(50,841)</u>	<u>-</u>	<u>(50,841)</u>
	<u>17,390,493</u>	<u>-</u>	<u>17,390,493</u>	<u>16,573,318</u>	<u>(686,838)</u>	<u>15,886,480</u>	<u>20,712,365</u>	<u>-</u>	<u>20,712,365</u>

The Management made its tax estimates of deferred income, assets and liabilities, based on the tax rate in force in the tax legislation.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 11. Taxes (continued)

The reconciliation of the deferred income tax of the prior year with the present year is as follows:

	Beginning balance	2014 Recognition in profit/loss	Ending balance	Beginning balance	2013 Recognition in profit/loss	Ending balance
Allowance for uncollectable loans	14,761,271	822,942	15,584,213	15,000,850	(239,579)	14,761,271
Allowance for doubtful accounts of insurance premiums	-	-	-	379,817	(379,817)	-
Reserve for foreclosed assets	-	-	-	3,674,263	(3,674,263)	-
Provision for credit card rewards and litigations	1,982,173	(177,070)	1,805,103	2,565,492	(583,319)	1,982,173
Deferred commissions	(693,829)	693,829	-	(883,621)	189,792	(693,829)
Unearned premium reserve	(278,524)	278,524	-	(24,361)	(254,163)	(278,524)
Several insurance reserve	166,230	(114,212)	52,018	50,766	115,464	166,230
Liabilities for intangible asset	(50,841)	-	(50,841)	(50,841)	-	(50,841)
	<u>15,886,480</u>	<u>1,504,013</u>	<u>17,390,493</u>	<u>20,712,365</u>	<u>(4,825,885)</u>	<u>15,886,480</u>

As of December 31<sup>st</sup>, 2014, the Bank had fiscal accumulated losses for B/.205,176 (2013: B/.100,654). Generally, the accumulated tax losses could be used for five years by 20% per year without exceeding 50% of the taxable income. These available accumulated losses are distributed as follows:

Year	Fiscal loss to be used for the year
2014	51,566
2015	46,542
2016	46,542
2017	39,621
2018	20,905

### 12. Earnings per Share

The calculation of basic earnings per share is based on the net profit attributable to common shareholders and the weighted average number of common shares outstanding during the period. The following table shows the calculation of earnings per share:

	2014	2013
<b>Calculation of basic and diluted income per share:</b>		
Net consolidated income attributable to majority shareholders	76,814,666	20,164,877
Less dividends paid - preferred shares	<u>(11,604,094)</u>	<u>(10,707,249)</u>
Net income attributable to common shareholders	<u>65,210,572</u>	<u>9,457,628</u>
Weighted average number of common shares	<u>10,000,001</u>	<u>10,000,001</u>
Basic and diluted earnings per share	<u>6.52</u>	<u>0.95</u>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 13. Cash and Cash Equivalents

The cash and cash equivalents (excluding accrued interest receivable) are detailed as follows for purposes of reconciliation with the consolidated statement of cash flows:

	2014	2013	January 1, 2013
Cash and cash equivalents	122,988,552	120,779,253	159,577,614
Demand deposits	593,612,584	868,214,751	149,738,706
Time deposits with original maturities of three months or less	290,406,684	243,299,914	902,586,930
Cash, cash equivalents and deposits classified as held for sale	<u>-</u>	<u>-</u>	<u>215,978,182</u>
Cash and cash equivalents in the consolidated statement of cash flows	1,007,007,820	1,232,293,918	1,427,881,432
Time deposits maturity of more than three months	<u>9,445,305</u>	<u>128,096,700</u>	<u>128,020,186</u>
Total cash, cash equivalents, and deposits including those classified as held for sale	<u><u>1,016,453,125</u></u>	<u><u>1,360,390,618</u></u>	<u><u>1,555,901,618</u></u>

At December 31<sup>st</sup>, 2013, deposits in financial institutions guaranteeing loans granted by Barclays Bank PLC through a credit line had a balance of B/.116,000,000. This funding expired on December 1<sup>st</sup>, 2014 (see Note 20).

At December 31<sup>st</sup>, 2014, the annual interest rate for time deposits ranged from 1.13% to 7.39% (2013: 0.10% to 3.50%).

#### 14. Investment Securities

The investment securities (excluding accrued interest receivable) are summarized as follows:

##### Securities at Fair Value through Profit or Loss

	2014		2013		January 1, 2013	
	Fair Value	Original Cost	Fair Value	Original Cost	Fair Value	Original Cost
Treasury letters	172,894,547	172,242,024	157,614,187	157,256,375	421,663,394	420,665,721
Corporate bonds	5,653,497	5,668,900	-	-	-	-
Bonds of Republic of Panama	15,014,651	15,099,903	3,978,940	3,992,654	12,989,533	12,976,937
Bonds of Republic of Costa Rica	18,818,517	18,935,595	23,672,024	23,770,131	20,268,102	20,203,079
Bonds of Republic of Colombia	<u>2,219,000</u>	<u>2,270,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u><u>214,600,212</u></u>	<u><u>214,216,622</u></u>	<u><u>185,265,151</u></u>	<u><u>185,019,160</u></u>	<u><u>454,921,029</u></u>	<u><u>453,845,737</u></u>

During the year ended December 31<sup>st</sup>, 2014, a gain was recognized on securities at fair value through profit or loss for B/.424,816 (2013: B/.883,780) in the consolidated income statement and is presented under the heading of net loss in securities and derivatives (See Note 8).

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 14. Investment Securities (Continued)

The fair values for the securities portfolio are determined by the publicly quoted prices of the shares or bonds published in stock-exchanges and electronic systems of securities information.

##### Available-for-Sale Investment Securities

	2014	2013	January 1, 2013
Corporate Bonds	13,418,521	21,459,191	33,988,993
Bonds of Republic of Panama	320,678,297	313,061,302	317,833,098
Bonds of Republic of Colombia	33,290,765	-	-
Bonds of Republic of Mexico	11,525,448	-	-
Bonds of United States of America	34,853,125	-	-
Treasury Letters	-	87,886,256	38,193,339
Certificate of Participation (CERPAN)	110,341,907	119,698,241	128,024,764
Equity securities	<u>16,921,659</u>	<u>17,163,493</u>	<u>13,490,679</u>
Total	<u>541,029,722</u>	<u>559,268,483</u>	<u>531,530,873</u>

The movement of the investment available for sale (excluding accrued interest receivable) is presented as follows:

	2014	2013
<b>Beginning balance</b>	559,268,483	531,530,873
Additions	325,969,000	178,722,393
Sales and redemptions	(369,141,120)	(175,301,927)
Gain on sale of investment in securities	4,387,400	1,504,639
Premium and discount	19,888,249	22,266,229
Net change in fair value	<u>657,710</u>	<u>546,276</u>
Ending balance	<u>541,029,722</u>	<u>559,268,483</u>

Sales operations during 2014 generated a gain of B/.4,387,400 (2013: B/.1,504,639) in the consolidated income statement and is shown under net loss on securities and derivatives (Note 8).

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 14. Investment Securities (Continued)

As of December 31<sup>st</sup>, 2014, the gain recognized by the effect of hedging activities amounted to B/.986,824 (2013: B/.5,255,278) representing the portion of the unrealized gain or loss attributable to the hedged risk in those values for derivatives designated to fair value hedges. That effect is presented in the income statement in the caption of net loss on securities and derivatives.

The Participation of Negotiable Certificates (CERPANES), with a par value of B/.40,403,347 and a fair value of B/.83,167,663, is the collateral of a loan payable to Citibank N.A. of B/.58,000,000 (See Note 20).

At December 31<sup>st</sup>, 2014, the Bank holds equity shares for an amount of B/.6,358,763 (2013: B/.6,358,763), which are recorded at their acquisition cost due to the inability to determine a reliable fair value. The Bank conducts annual reviews to validate that the values of these investments have not suffered a permanent impairment in which there is a need to adjust the value of the investment. The equity shares which are held at cost are not part of an active market, and the Bank plans to keep them on their books.

The net change in the valuation of investments available for sale, from continuing operations during the year was B/.5,045,110 (2013: B/.2,050,915), which was recorded in the fair value reserve in the consolidated statement of comprehensive income.

The earned annual interest rates from available for sale securities are as follows: 2.63% to 7.59% (2013: 2.68% to 11.98%).

The Bank holds corporate and government bonds in the amount of B/.7,140,000 (2013: B/.7,140,000) with anticipated redemption options by the issuer of maturities between one and twelve months.

At December 31<sup>st</sup>, 2014, the Bank's portfolio consists in 69.3% of short and long-term government bonds of local and foreign markets, and participation certificates (CERPAN); 28.9% in certificates of deposits and 1.8% in corporate bonds. On government bonds 56.9% comprises debt instruments of the Republic of Panama, 31.2% in CETES of the Republic of Mexico; 6.0% in debt instruments of the Republic of Colombia and 5.9% in US Bonds.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 14. Investment Securities (Continued)

Local government bonds portfolio of the Bank such as Treasury Notes and the Republic of Panama Bonds are characterized by maintaining good grade of liquidity because they are part of the "market makers."

#### 15. Loans

The composition of the loan portfolio (excluding accrued interest receivable), is summarized as follows):

	2014			2013			January 1, 2013		
	Internal	External	Total	Internal	External	Total	Internal	External	Total
Commercial and industrial	1,862,214,790	423,284,873	2,285,499,663	1,506,985,190	465,527,905	1,972,513,095	1,501,951,590	603,638,907	2,105,590,497
Personal	808,287,036	6,740	808,293,776	821,893,581	-	821,893,581	876,654,643	971,541	877,626,184
Residential mortgages	1,629,075,117	-	1,629,075,117	1,468,197,374	-	1,468,197,374	1,341,179,062	-	1,341,179,062
Agricultural	104,889,645	106,569,328	211,458,973	81,070,043	64,159,851	145,229,894	80,189,213	128,571,551	208,760,764
Construction	858,187,145	6,032,663	864,219,808	699,152,035	6,597,983	705,750,018	703,047,640	11,062,745	714,110,385
Credit cards	168,388,108	-	168,388,108	157,566,459	-	157,566,459	152,829,375	-	152,829,375
Cooperatives	2,484,665	-	2,484,665	6,163,760	-	6,163,760	29,658,386	-	29,658,386
Financial institutions	16,604,192	-	16,604,192	18,704,832	-	18,704,832	36,752,495	1,331,676	38,084,171
Vehicles	156,421,799	-	156,421,799	125,112,441	-	125,112,441	87,125,380	-	87,125,380
Government	108,698,176	-	108,698,176	185,066,281	-	185,066,281	125,300,484	-	125,300,484
Finance leases	53,154,414	-	53,154,414	51,643,137	-	51,643,137	71,608,936	-	71,608,936
	<u>5,768,405,087</u>	<u>535,893,604</u>	<u>6,304,298,691</u>	<u>5,121,555,133</u>	<u>536,285,739</u>	<u>5,657,840,872</u>	<u>5,006,297,204</u>	<u>745,576,420</u>	<u>5,751,873,624</u>

At December 31<sup>st</sup>, 2014, ranges of annual interest rates on loans are as follows: 7.15% to 30.00% (2013: 7.33% to 30.00%).

The classification of the credit portfolio (excluding accrued interest receivable) by type of interest rate is detailed as follows:

	2014	2013	January 1, 2013
Fixed rate	1,542,452,014	1,474,338,461	1,435,355,273
Variable rate	<u>4,761,846,677</u>	<u>4,183,502,411</u>	<u>4,316,518,351</u>
	<u>6,304,298,691</u>	<u>5,657,840,872</u>	<u>5,751,873,624</u>

Loans by B/.419,311,255 (2013: B/.331,794,104), were guaranteed with time deposits and clients savings accounts.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 15. Loans (Continued)

The movement of the allowance for loan losses impairment, corresponding to continuing operations is as follows:

	2014	2013	January 1, 2013
Beginning balance	59,227,245	56,343,091	67,270,385
Provision of the year	38,881,305	41,449,414	29,520,140
Provision of the year for discontinued operations	-	-	48,799,011
Loans charged off	(46,216,539)	(47,056,462)	(40,999,647)
Recoveries	10,583,645	8,491,202	19,531,080
Portion reclassified to assets classified as held for sale	<u>-</u>	<u>-</u>	<u>(67,777,878)</u>
Ending balance	<u>62,475,656</u>	<u>59,227,245</u>	<u>56,343,091</u>

The loan portfolio (excluding accrued interest receivable) includes finance lease receivables whose maturities are detailed below:

	2014	2013	January 1, 2013
Finance leases minimum payments:			
Up to 1 year	4,751,835	5,720,105	2,549,663
From 1 to 5 years	45,853,184	45,812,152	66,348,902
More than 5 years	<u>2,549,395</u>	<u>110,880</u>	<u>2,710,371</u>
Total of minimum payments	53,154,414	51,643,137	71,608,936
Less: unearned revenue	<u>(5,623,037)</u>	<u>(5,505,101)</u>	<u>(8,278,107)</u>
Net, finance leases	<u>47,531,377</u>	<u>46,138,036</u>	<u>63,330,829</u>

During the year ended December 31<sup>st</sup>, 2014, the Panamanian Bank recorded tax credits for the approximate amount of B/.12,205,259 (2013: B/.9,913,720), as interest revenue from the portfolio of preferential mortgage loans. As of December 31<sup>st</sup>, 2014, the Bank has pending a request made to the tax authorities for tax credits for the amount of B/.28,644,045 (2013: B/.32,498,180). The Management of the Bank estimates that it will not incur losses in the realization of these tax credits.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 15. Loans (Continued)

This net benefit is equivalent to the difference between the interest that would have been received by the Bank in the event of having charged the actual market interest rate during that year and the interest actually received related to each of the preferential mortgage loans.

### 16. Investment in Associates

The total investment in associates at December 31<sup>st</sup>, 2014 amounted to B/.425,021. The associate companies is described below:

Associate	Activity	2013	Percentage of Participation		January 1, 2013
			January 1, 2013	2013	
Inversiones Saneal	Planting teak	36.2%	17%	<u>425,021</u>	<u>221,270</u>

In April 2014, Inversiones Saneal, S. A. completed the sale of its teak plantations by returning to shareholders their contributions and obligations receivables at that date. The company was dissolved by Deed No.19,873 of July 18<sup>st</sup>, 2014.

### 17. Properties, Furniture, Equipment, and Improvements

The properties, furniture, equipment, and improvements are summarized as follows:

	Land	Buiding	2014 Furniture and Equipment	Improvement	Total
<b>Cost:</b>					
At beginning of the year	4,400,992	33,899,477	79,543,663	43,061,187	160,905,319
Additions	-	-	3,103,978	3,307,730	6,411,708
Sales and disposal	<u>(537,000)</u>	<u>-</u>	<u>(2,083,947)</u>	<u>(322,304)</u>	<u>(2,943,251)</u>
At year end	<u>3,863,992</u>	<u>33,899,477</u>	<u>80,563,694</u>	<u>46,046,613</u>	<u>164,373,776</u>
<b>Depreciation and amortization:</b>					
At beginning of the year	-	14,024,623	59,356,943	19,394,828	92,776,394
Expense of the year	-	1,231,186	7,361,230	2,800,256	11,392,672
Sales and disposal	<u>-</u>	<u>-</u>	<u>(1,864,632)</u>	<u>(134,544)</u>	<u>(1,999,176)</u>
At year end	<u>-</u>	<u>15,255,809</u>	<u>64,853,541</u>	<u>22,060,540</u>	<u>102,169,890</u>
Net balance	<u>3,863,992</u>	<u>18,643,668</u>	<u>15,710,153</u>	<u>23,986,073</u>	<u>62,203,886</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 17. Properties, Furniture, Equipment, and Improvements (Continued)

	Land	Building	2013 Furniture and Equipment	Improvement	Total
<b>Cost:</b>					
At beginning of the year	4,593,805	34,248,960	75,590,853	40,773,868	155,207,486
Additions	-	-	9,246,520	3,459,743	12,706,263
Sales and disposal	<u>(192,813)</u>	<u>(349,483)</u>	<u>(5,293,710)</u>	<u>(1,172,424)</u>	<u>(7,008,430)</u>
At year end	<u>4,400,992</u>	<u>33,899,477</u>	<u>79,543,663</u>	<u>43,061,187</u>	<u>160,905,319</u>
<b>Depreciation and amortization accumulate:</b>					
At beginning of the year	-	13,013,781	57,554,442	17,097,094	87,665,317
Expense of the year	-	1,235,133	7,014,446	2,858,443	11,108,022
Sales and disposal	-	<u>(224,291)</u>	<u>(5,211,945)</u>	<u>(560,709)</u>	<u>(5,996,945)</u>
At year end	-	<u>14,024,623</u>	<u>59,356,943</u>	<u>19,394,828</u>	<u>92,776,394</u>
Net balance	<u>4,400,992</u>	<u>19,874,854</u>	<u>20,186,720</u>	<u>23,666,359</u>	<u>68,128,925</u>
<b>January 1, 2013</b>					
	Land	Building	Furniture and Equipment	Improvement	Total
<b>Cost:</b>					
At beginning of the year	6,159,324	42,819,808	115,138,825	45,333,831	209,451,788
Additions	-	-	3,559,963	2,898,282	6,458,245
Sales and disposals	(123,583)	(1,280,668)	(18,657,429)	(2,561,912)	(22,623,592)
Acquisitions, reclassifications and adjustments for currency exchange	-	(869,109)	(14,989)	459,078	(425,020)
Reclassification to assets classified as held for sale	<u>(1,441,936)</u>	<u>(6,421,071)</u>	<u>(24,435,517)</u>	<u>(5,355,411)</u>	<u>(37,653,935)</u>
At year end	<u>4,593,805</u>	<u>34,248,960</u>	<u>75,590,853</u>	<u>40,773,868</u>	<u>155,207,486</u>
<b>Depreciation and amortization:</b>					
At beginning year	-	16,446,518	89,285,941	17,988,420	123,720,879
Expenses of the year	-	1,315,604	7,032,533	2,828,787	11,176,924
Sales and disposals	-	(611,319)	(18,452,830)	(1,481,368)	(20,545,517)
Acquisitions, reclassifications and adjustments for currency exchange	-	(880,914)	76,209	79,776	(724,929)
Reclassification to assets classified as held for sale	-	<u>(3,256,108)</u>	<u>(20,387,411)</u>	<u>(2,318,521)</u>	<u>(25,962,040)</u>
At year end	-	<u>13,013,781</u>	<u>57,554,442</u>	<u>17,097,094</u>	<u>87,665,317</u>
Net balance	<u>4,593,805</u>	<u>21,235,179</u>	<u>18,036,411</u>	<u>23,676,774</u>	<u>67,542,169</u>

### 18. Goodwill

The goodwill is as follows:

	2014	2013	January 1, 2013
Goodwill	<u>66,739,678</u>	<u>66,739,678</u>	<u>80,150,238</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 18. Goodwill (Continued)

The movement of goodwill is detailed as follows:

	2014	2013	January 1, 2013
Beginning balance	66,739,678	80,150,238	127,474,524
Disposal on sale of subsidiaries	<u>-</u>	<u>(13,410,560)</u>	<u>(47,324,286)</u>
Ending balance	<u>66,739,678</u>	<u>66,739,678</u>	<u>80,150,238</u>

The goodwill allocated to each business unit, is detailed as follows:

	2014	2013	January 1, 2013
Consumer	19,487,982	19,487,982	23,403,865
Corporate	<u>47,251,696</u>	<u>47,251,696</u>	<u>56,746,373</u>
	<u>66,739,678</u>	<u>66,739,678</u>	<u>80,150,238</u>

For the purpose of impairment testing, goodwill is allocated to the operating divisions which represent the lowest level within the Bank. Goodwill is monitored for internal management purposes; and the amount does not exceed the discounted future cash flows of the operating segments.

The recoverable amounts of the business units of personal financial services and commercial banking have been calculated based on their value in use; however due to the sale of foreign subsidiaries, there was de-recognition of goodwill as a result of reallocation made at the time to recognize the disposition of the subsidiaries sold.

Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of the unit. The calculation of value in use was based on the following key assumptions:

- The actual operating results and the business plan for 2014 and the business plan for 2015 to project future cash flows. The future cash flows were projected using average growth rates based on long-term assumptions of growth rates. The forecast period is based on the Bank's long-term perspective with respect to the operation of these units and determined in 10 years.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 18. Goodwill (Continued)

- The discount rate (before tax effects) of 12.10% was applied in determining the recoverable amounts for the personal financial services and commercial banking units. This discount rate is calculated on the basis of past experience and the Weighted Average Cost of Capital (WACC) assigned to these units.

The key assumptions described above may change as economic and market conditions change. The Bank estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of either unit to decline below the carrying amount.

### 19. Other Assets

Other assets are summarized as follows:

	2014	2013	January 1, 2013
Prepaid taxes and expenses	26,807,531	27,704,892	17,067,927
Net, marketable and nonmarketable foreclosed assets	2,217,578	2,903,487	1,474,669
Guaranty deposits	1,098,036	1,279,711	2,643,600
Unemployment funds	7,661,588	7,233,368	8,119,771
Accounts receivable, credit and debit cards operations	5,729,214	25,478,302	37,174,387
Tax credit (Note 15)	39,113,668	33,051,927	23,138,207
Projects in progress	31,037,066	28,026,919	55,417,079
Others	<u>24,209,393</u>	<u>33,756,034</u>	<u>52,308,314</u>
	<u>137,874,074</u>	<u>159,434,640</u>	<u>197,343,954</u>

The marketable and nonmarketable foreclosed assets are summarized as follows:

	2014	2013	January 1, 2013
Foreclosed assets	<u>2,217,578</u>	<u>2,903,487</u>	<u>1,474,669</u>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 20. Borrowings

The borrowings are summarized as follows:

	2014	2013	January 1, 2013
Borrowings with maturity at 2013 and Libor interest rate of 3 months plus margin	-	-	420,000,000
Borrowings with maturity at 2014 and Libor interest rate of 3, 6 and 12 months plus margin	-	670,293,360	139,961,768
Borrowings with maturity at 2014 and annual fixed interest rate	-	331,338,757	130,000,000
Borrowings with maturity at 2015 and Libor interest rate of 3, 6 and 12 months plus margin	307,806,810	-	-
Borrowings with maturity at 2015 and annual fixed interest rate	240,288,351	174,523,301	-
Borrowings with maturity at 2016 and Libor interest rate of 3 months plus margin	28,191,172	-	-
Borrowings with maturity at 2017 and Libor interest rate of 6 months plus margin	400,000,000	-	-
Borrowings with maturity at 2018 and Libor interest rate of 3 months plus margin	<u>50,000,000</u>	<u>62,500,000</u>	<u>240,000,000</u>
	<u>1,026,286,333</u>	<u>1,238,655,418</u>	<u>929,961,768</u>

The Bank has no defaults of principal, interest or other contractual clauses regarding their obligations.

At December 31<sup>st</sup>, 2014, the range of annual interest rates on borrowings is as follows: 0.23% to 5.69% (2013: 0.20% to 5.69%).

At December 31<sup>st</sup>, 2013, Banistmo, S. A. held a credit line of B/.100,000,000 with Barclays Bank PLC, that was secured by deposits totaling B/.116,000,000. This borrowing expired on December 1<sup>st</sup>, 2014.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 20. Borrowings (Continued)

At April 28<sup>th</sup>, 2014, Citibank, NA awarded Banistmo, S. A. a credit line for B/.58,000,000 guaranteed with Negotiable Certificates of Participation (CERPANES) with a nominal value of B/.40,403,347 and a fair value of B/.83,167,663 (see Note 14).

On October 6<sup>th</sup>, 2014, The Bank of Tokyo Mitsubishi UFJ, JP Morgan and Wells Fargo structured a global syndicated loan for B/.400,000,000 maturing on October 6<sup>th</sup>, 2017 to Banistmo, S. A.

#### 21. Sundry Creditors

Detail of sundry creditors is presented in the following table:

	2014	2013	January 1, 2013
Income tax and other taxes	9,553,614	7,506,013	7,793,669
Payable assurance	19,567,845	20,842,264	22,780,209
Deferral commissions	2,224,195	3,566,139	5,296,062
Accumulated expense	35,920,685	37,538,718	29,901,261
Client balance not claimed	15,780,845	22,923,440	18,578,654
Treasury operations	11,751,862	17,320,410	22,122,519
Retained litigation funds	20,566,963	1,971,946	2,001,771
Other liabilities	<u>73,167,515</u>	<u>96,351,908</u>	<u>170,022,027</u>
	<u>188,533,524</u>	<u>208,020,838</u>	<u>278,496,172</u>

#### 22. Common Shares

The composition of common capital is summarized as follows:

	2014	2013	January 1, 2013
Authorized shares without nominal value	<u>20,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>
Issued shares with nominal value, each with a value of B/.1			
Beginning and ending balance of the year	<u>10,000,001</u>	<u>10,000,001</u>	<u>10,000,001</u>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 22. Common Shares (Continued)

	2014	2013	January 1, 2013
<b>Paid in Capital</b>			
Additional balance at beginning of year	612,491,972	618,692,351	823,391,905
Capital decrease	-	(6,200,379)	(206,737,953)
Capitalizations of earnings	<u>-</u>	<u>-</u>	<u>2,038,399</u>
Additional balance at end of year	<u>612,491,972</u>	<u>612,491,972</u>	<u>618,692,351</u>
Total capital	<u>622,491,973</u>	<u>622,491,973</u>	<u>628,692,352</u>

#### 23. Preferred Stocks

Banistmo, S. A. issued preferred stocks, all registered at the Superintendency of Market Securities of the Republic of Panama.

The table below shows the current issued preferred stock amounts, which terms and conditions are established in its respective Offering Memorandum:

Issuance Date	2014	2013	January 1, 2013	Dividends	Type
August 30, 2004	<u>147,151,800</u>	<u>147,151,800</u>	<u>147,151,800</u>	7.00%	No Accumulative

During 2004, the Superintendency of Banks of Panama approved the new issuance of non-cumulative preferred shares for B/.150, 000,000 to replace the preferred shares issued in 2001, which do not have a maturity date and the issuer reserves the right to partially or fully redeem them from August 30<sup>th</sup>, 2007 onwards. The number of preferred shares in circulation as of December 31<sup>st</sup>, 2014 amount to 1,471,518 with a nominal value of B/.100 each, with no maturity date.

In addition, the Offering Memorandum of the public offerings establishes the following issuance conditions:

- The payment of the dividends will take place on a quarterly basis each year or until the date of partial or complete redemption of the shares, once declared by the Board of Directors. The declaration of dividends corresponds to the Board of Directors, using their best judgment. The Board of Directors does not have a contractual nor regulatory obligation to declare dividends.
- The Bank cannot guarantee or guarantee the payment of dividends.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 23. Preferred Stocks (Continued)

- The preferred shareholders will not be affected in their investment as long as the Bank does generate the earnings or necessary profits, which in the judgment of the Board of Directors, could be sufficient to declare dividends.
- The preferred stocks are backed with the general credit of the Bank and enjoy the preferred rights over the common shareholders in the payment of dividends once these are declared.

On December 4<sup>th</sup>, 2014, a request was sent for the non-objection to the redemption of 100% of the preferred shares to the Superintendency of Banks of Panama. Moreover, the Bank reported the immediate capitalization of common stocks by Bancolombia, S. A.

By Resolution SBP-DS-N-6853-2014 of December 30<sup>th</sup>, 2014, the Superintendency of Banks of Panama expressed no objection to the process of early redemption of all non-cumulative preferred stocks issued by Primer Banco del Istmo, S.A. (currently Banistmo, S. A.) in three series, namely, Series A, Series B and Series C, on August 30<sup>th</sup>, 2004, and the same will be redeemed in full on March 2<sup>nd</sup>, 2015 in the amount of B/. 147,151,800 corresponding to the issued and outstanding preferred stock. On January 30<sup>th</sup>, 2015, it was reported to the Superintendency of Market Securities the Bank's decision to exercise its right of redemption. This decision was notified to the preferred stockholders on 26, 27 and 28<sup>th</sup> January 2015, through a national newspaper.

#### 24. Non-controlling Interest

The composition of the non-controlling interest to holders of common stock is summarized as follows:

Subsidiary	% Non-controlling Interest	
	January 1, 2013	January 1, 2013
HSBC Colombia, S. A.	0.06%	<u>122,878</u>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 24. Non-controlling Interest (Continued)

The movement of the non-controlling interest in subsidiaries' common stock is summarized below:

	2013	January 1, 2013
Balance at beginning of the year	122,878	25,514,775
Non-controlling interest of the year	6,298	5,769,690
Changes in non-controlling interest on subsidiaries that do not result in loss of control	-	(158,895)
Disappropriation of non-controlling interest on disposal of subsidiary	<u>(129,176)</u>	<u>(31,002,692)</u>
Balance at end of the year	<u>-</u>	<u>122,878</u>

#### 25. Commitments and Contingencies

In the normal course of business, the Bank maintains financial instruments with off-balance sheet risks to meet the financial needs of its customers. These financial instruments include letters of credit, guarantees, and loan commitments that involve, to varying degrees, elements of credit risk.

Guarantees issued on behalf of customers, commercial letters of credit and loan commitments carry exposure to risk of credit loss in the event of non-performance by the customer, net of tangible guarantees securing these transactions. The Bank's credit policies and procedures to approve contingent credit are the same as those for extension of credit. It is Management's opinion that no material losses will be incurred by the Bank resulting from these contingent liabilities on behalf of customer.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 25. Commitments and Contingencies (Continued)

The financial instruments with off-balance credit risk not included in the consolidated statement of financial position are detailed as follow:

	2014	2013	January 1, 2013
Letters of credit	65,702,565	123,713,689	256,526,130
Guarantees, endorsements and others	812,685,078	884,927,782	1,235,220,875
Loan commitments	<u>1,183,868,223</u>	<u>978,950,262</u>	<u>499,149,110</u>
	<u>2,062,255,866</u>	<u>1,987,591,733</u>	<u>1,990,896,115</u>

As of December 31<sup>st</sup>, 2014, the Bank had all financial instruments with off-balance sheet credit risks classified under the category normal and in compliance with Agreement 6-2002. The Bank's Management does not expect to incur losses in relation to this Agreement.

As of December 31<sup>st</sup>, 2014, there were legal claims filed against the Bank and its subsidiaries over categorized cases for an amount of B/.10,879,636 (2013: B/.11,513,124) plus interest and legal costs. The Bank's Management and its legal advisors estimate that the result of these cases will not result in a material adverse effect on the consolidated financial position of the Bank. On those cases in which probabilities exist of an unfavorable outcome, the Bank maintains an assigned provision for this contingency amounting B/.1,976,651 (2013: B/.2,779,706) under other liabilities' account in the consolidated statement of financial position.

As of December 31<sup>st</sup>, 2014, the Bank maintains, with third parties, commitments emanating from lease contracts of operating premises which will expire during various dates in the upcoming years. The value of the annual lease payments of the contracts for the next five years is as follows:

<u>Years</u>	<u>2014</u>	<u>2013</u>
2015	12,514,276	4,767,727
2016	9,913,630	2,232,642
2017	9,285,960	1,540,704
2018	9,377,825	1,536,916
More than 5 years	30,298,827	1,247,820

During the year ended December 31<sup>st</sup>, 2014, the premises lease expense amounted to B/.7,397,114 (2013: B/.6,899,214).

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 26. Financial Derivative Instruments

The Bank offers to its customer's contracts for purchase/sale of foreign currencies related to the strategies of their clients to manage risks of currency fluctuation, transfers, and other market risks or for their own trading purposes. As part of this process, the Bank deems appropriate the level of risk involved in regards to the characteristics of the business. In this sense, the Bank manages and controls the risk on these contracts for the purchase/sale of foreign currencies through the authorization of limits on the amount and terms for their clients.

The Bank manages market risk in foreign currency within the limits established using the treasury instruments approved. The Bank uses contracts of forward purchase/sale of foreign currencies to manage its exposure to foreign currency risks. At December 31<sup>st</sup>, 2014, the Bank entered into forward contracts to purchase or sell foreign currency to cover client's operations as well as its own, as follows:

Currency	2014		2013	
	Nominal Value Equivalent in Balboas	Fair Value Assets (Liabilities)	Nominal Value Equivalent in Balboas	Fair Value Assets (Liabilities)
<i>Future contracts - purchasing of currencies</i>				
Costa Rican Colon	14,417,206	(83,792)	11,796,230	(23,104)
Canadian Dollar	-	-	119,659	(172)
Euro	4,931,820	(207,159)	1,378,475	28,118
Pound Sterling	206,360	-	1,235,925	(2,120)
Mexican Pesos	2,305,540	(108,534)	26,188,699	351,844
Swiss Franc	418,776	(5,232)	-	-
Japanese Yen	8,449,151	(586,177)	3,448,369	(181,949)
Offshore Yuan	-	-	1,025,799	29,902
Total		<u>(990,894)</u>		<u>202,519</u>
<i>Future contracts - selling of currencies</i>				
Costa Rican Colon	13,708,061	(10,676)	33,275,412	(382,368)
Canadian Dollar	-	-	119,659	172
Euro	4,910,304	207,534	3,336,864	(26,254)
Pound Sterling	-	-	1,235,925	2,780
Mexican Pesos	175,899,140	11,794,418	185,005,188	(380,093)
Swiss Franc	418,776	5,232	-	-
Japanese Yen	8,413,521	586,423	2,973,145	180,518
Offshore Yuan	-	-	1,025,799	(29,902)
Total		<u>12,582,931</u>		<u>(635,147)</u>

The average maturity of these contracts is 2.25 months (2013: 2.81 months).

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 26. Financial Derivative Instruments (Continued)

During the year ended December 31<sup>st</sup>, 2014, the Bank recognized in the consolidated income statement, loss an amount of B/.6,629,172 (2013: B/.8,371,597) as a result of buying and selling of foreign currencies in external forward foreign currency.

#### Interest Rate Swaps

As of December 31<sup>st</sup>, 2014, the Bank had recorded eight (2013: thirteen) interest rate swap contract's with a face value of B/.86,974,539 (2013: B/.277,529,058) and fair value recorded in assets of B/.1,570,918 (2013: B/.3,689,013) with maturities on March 2015 until May 2023.

Additionally, as of December 31<sup>st</sup>, 2014, the Bank had recorded eight (2013: thirteen) interest rate swap contract's with a face value of B/.86,974,539 (2013: B/.246,195,724) and fair value recorded in liabilities of B/.1,084,122 (2013: B/.3,212,176) with maturities on March 2014 until May 2023.

#### Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of its instruments or fixed rate financial assets attributable to changes in market interest rates.

The fair values of derivatives designated as fair value hedges are as follows:

	2014		2013	
	Nominal Value	Fair Value	Nominal Value	Fair Value
Interest rate swaps	<u>101,930,000</u>	<u>(992,041)</u>	<u>129,430,000</u>	<u>5,781,518</u>

#### Macro cash flow hedges

The Bank uses interest rate swaps to cover interest rate risk of its portfolio of deposits.



## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 27. Balances and Transactions with Related Parties

The consolidated statement of financial position and consolidated income statement include balances and transactions with related parties. The related parties with Bancolombia Group include transactions with Bancolombia, S. A. (Parent - Colombia), Banco Agrícola, S. A. El Salvador, Bancolombia Panama, S. A. Off Shore, Valores Bancolombia Panama, S. A., summarized as follow:

	Directors and Key Management Personnel		Bancolombia's Group	
	2014	2013	2014	2013
<b>Assets</b>				
Bank deposits	<u>-</u>	<u>-</u>	<u>3,930,103</u>	<u>-</u>
Loans	<u>3,219,572</u>	<u>1,270,448</u>	<u>-</u>	<u>-</u>
Accumulated interest receivable	<u>7,141</u>	<u>2,875</u>	<u>-</u>	<u>-</u>

No provisions have been recognized due to impairment of financial assets with related parties.

The loans to directors and key management personnel are granted with the same terms and conditions that are available for other employees. The terms and conditions are based on those given to third parties adjusted for a lesser risk of credit. The loans to directors as of December 31<sup>st</sup>, 2014 amounted to B/3,219,572 (2013: B/1,270,448) and have an average annual interest rate of 3.30% (2013: 4.07%).

	Directors and Key Management Personnel		Bancolombia's Group	
	2014	2013	2014	2013
<b>Deposits</b>				
Demand deposits and savings	<u>942,649</u>	<u>645,832</u>	<u>198,050,388</u>	<u>-</u>
Time deposits	<u>535,000</u>	<u>142,464</u>	<u>-</u>	<u>30,000,000</u>
Financings	<u>-</u>	<u>-</u>	<u>240,000,000</u>	<u>200,000,000</u>
Accumulated interest payable	<u>3,681</u>	<u>1,786</u>	<u>67,833</u>	<u>67,167</u>
Other liabilities	<u>-</u>	<u>-</u>	<u>777,997</u>	<u>-</u>
<b>Equity</b>				
Preferred stocks	<u>-</u>	<u>-</u>	<u>132,578,000</u>	<u>132,578,000</u>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 27. Balances and Transactions with Related Parties (Continued)

For the year ended December 31<sup>st</sup>, 2014, the following items of income and expenses are included in aggregate amounts because of the aforementioned referenced related parties' transactions:

	Directors and Key Management Personnel		Bancolombia's Group	
	2014	2013	2014	2013
<b>Interest revenue on:</b>				
Deposits	<u>-</u>	<u>-</u>	<u>20</u>	<u>-</u>
Loans	<u>50,972</u>	<u>83,258</u>	<u>-</u>	<u>-</u>
<b>Interest expenses on:</b>				
Deposits	<u>18,993</u>	<u>40,030</u>	<u>-</u>	<u>6,583</u>
Financings	<u>-</u>	<u>-</u>	<u>915,500</u>	<u>121,389</u>
<b>General and administrative expenses:</b>				
Salaries – short term	<u>2,777,231</u>	<u>2,300,669</u>	<u>-</u>	<u>-</u>
Employee benefits – short term	<u>699,971</u>	<u>1,228,262</u>	<u>-</u>	<u>-</u>
Share-compensation based	<u>-</u>	<u>2,678,733</u>	<u>-</u>	<u>-</u>

No long-term or post-employment benefits have been granted to directors or other key management staff members.

#### 28. Fiduciary Services

The trusts that the Bank manages are kept under off-balance sheet accounts. The total of managed trusts amount to B/2,201,141,633 (2013: B/2,024,068,208), such as detailed below:

	2014	2013
Total assets	3,166,583,233	2,883,370,555
Total liabilities	<u>(965,441,600)</u>	<u>(859,302,347)</u>
Total trusts, net	<u>2,201,141,633</u>	<u>2,024,068,208</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 28. Fiduciary Services (Continued)

Trust operations, in Panama, are regulated by the Superintendency of Banks of Panama in accordance with the established legislation in Law No.1 of January 5<sup>th</sup>, 1984.

The Bank provides custody securities services for customers through third parties. As of December 31<sup>st</sup>, 2014, the values of all assets under management were approximately B/.547,053,965 (2013: B/.637,759,920).

### 29. Fair Value of Financial Instruments

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

#### (a) Valuation models

The Bank establishes a fair value hierarchy that classifies into three levels the input data of the valuation techniques used to measure the fair value:

- Level 1: Quoted prices (unadjusted) in active markets for assets or liabilities identical to those the Bank may access at the measurement date.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This category includes: quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other valuation techniques in which all significant inputs are directly or indirectly observable in the market.
- Level 3: This category includes all assets or liabilities for which the valuation technique includes inputs not based on observable market 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.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 29. Fair Value of Financial Instruments (Continued)

#### (a) *Valuation models (continued)*

Valuation techniques include net present value and discounted cash flow models, compared with similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk and benchmark free interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices, and volatilities and correlations from expected prices.

In addition, given that the Bank has derivative financial instruments, a methodology of adjustment for the counterparty credit risk (credit value adjustment) is applied; for which the Bank creates a provision against possible default from the counterparty. This provision is developed by Market Risk Management and Liquidity and later approved by the corresponding party.

For certain derivative financial instruments future contracts for purchase/sale of foreign currencies that the market information is not sufficiently observable because the underlying (foreign currency) instrument does not have high liquidity, loss or gain (mark to market) of day one of such instrument is amortized to maturity, provided that gains or losses exceed the limits set by the Valuation Committee.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date in current market conditions.

The decision of whether a market is considered active may include, but is not limited to, consideration of factors such as the magnitude and frequency of trading activity, availability, and price and volume of the deals and transactions. In markets that are not active, the guarantee of getting the price of the transaction to provide evidence of fair value adjustments or determining the transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

An instrument is classified as fully valued using unobservable variables (i.e., level 3) if in the opinion of Management, a significant part of the book value of the instrument and/or an initial gain (“the gain or loss on day 1”) is driven by non-observable variables.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 29. Fair Value of Financial Instruments (Continued)

#### (a) *Valuation models (continued)*

“Non observables” this context means that there is little or no current market data available to determine what would be the price of a transaction. In general, this does not mean that there is no kind of market data available in which to base the determination of a reasonable value (price data may, for example, be used).

Furthermore, in some cases, most of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to the observable variables. Consequently, the impact of uncertainty in the determination of the unobservable variables is restricted to the uncertainty about the overall fair value of the financial instruments being measured.

The fair value of a portfolio of financial instruments traded in an active market is calculated as the product of the number of units multiplied by their trading price.

The valuation techniques used when market prices are unavailable incorporate certain assumptions that the Bank believes would be conducted by a market participant to establish fair value. When the Bank considers that there are additional considerations not included in the valuation model, adjustments can be made.

The lack of liquidity and lack of activity in the market for asset-backed securities has resulted in less observable data available. While quoted market prices are generally used to determine the fair value of these instruments, valuation models are used to verify the reliability of the limited market data available and to determine if required adjustments be made to quote market prices.

In the absence of market price quotations, fair value is determined using valuation techniques based on calculating the present value of future cash flows of the financial instrument. The initiation of these valuation techniques is derived from observable market data and, where applicable, assumptions concerning unobservable variables.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 29. Fair Value Financial Instruments (Continued)

#### *(b) Valuation framework*

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of the platform services (“Front Office”), and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

These specific controls include:

- Verification of observable pricing;
- Re-performance of model valuations;
- A review and approval process by the area of Market and Liquidity Risk and Valuation Committee of new models and changes to the models;
- Analysis and investigation of significant daily valuation movements; and review of significant unobservable inputs; and
- Valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, are assessed by the Valuation Committee and when third party information, such as: broker quotes or pricing services, is used to measure fair value; the area of Market and Liquidity Risk assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS.

#### *(c) Financial instruments measured at fair value – fair value levels*

The table below analyzes financial instruments (excluding accrued interest receivable) measured at fair value on a recurring basis. These instruments are classified into different levels of fair value hierarchy based on inputs data used and valuation techniques.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 29. Fair Value Financial Instruments (Continued)

(c) *Financial instruments measured at fair value – fair value levels (continued)*

2014 Description	Total	Fair value measurement		Level 3
		Level 1	Level 2	
Securities at fair value through in profit or loss				
Treasury Bills	172,894,547	172,894,547	-	-
Corporate Bonds	5,653,497	-	4,869,016	784,481
Bonds of the Republic of Costa Rica	18,818,517	-	18,818,517	-
Bonds of the Republic of Panama	15,014,651	4,647,563	10,367,088	-
Bonds of the Republic of Colombia	2,219,000	2,219,000	-	-
Derivatives	14,353,501	-	14,353,501	-
Securities available for sale:				
Capital Stocks	10,562,896	383,874	-	10,179,022
Bonds of the Republic of Mexico	11,525,448	11,525,448	-	-
Bonds of the Republic of Colombia	33,290,765	33,290,765	-	-
Bonds of the United States of America	34,853,125	34,853,125	-	-
Bonds of the United States of America	34,853,125	34,853,125	-	-
Bonds of the Republic of Panama	320,678,297	1,923,750	318,754,547	-
Corporate Bonds (CERPAN)	13,418,521	-	6,278,521	7,140,000
	<u>110,341,907</u>	<u>-</u>	<u>110,341,907</u>	<u>-</u>
Total	<u>763,624,672</u>	<u>261,738,072</u>	<u>483,783,097</u>	<u>18,103,503</u>
Financial derivative - liabilities	<u>(11,751,862)</u>	<u>-</u>	<u>(11,751,862)</u>	<u>-</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 29. Fair Value Financial Instruments (Continued)

(c) Financial instruments measured at fair value – fair value levels (continued)

2013 Description	Total	Fair value measurement		Level 3
		Level 1	Level 2	
Securities at fair value through in profit or loss				
Treasury Bills	157,614,187	157,614,187	-	-
Bonds of the Republic of Panama	3,978,940	-	3,978,940	-
Bonds of the Republic of Costa Rica	23,672,024	-	23,672,024	-
Derivatives	5,200,647	-	5,200,647	-
Securities Available for Sale:				
Capital Stocks	10,804,730	439,396	-	10,365,334
Treasury Bills	87,886,256	-	87,886,256	-
Bonds of the Republic of Panama	313,061,302	20,445,085	292,616,217	-
Corporate Bonds (CERPAN)	21,459,191	-	13,319,191	8,140,000
	<u>119,698,241</u>	<u>-</u>	<u>119,698,241</u>	<u>-</u>
Total	<u>743,375,518</u>	<u>178,498,668</u>	<u>546,371,516</u>	<u>18,505,334</u>
Financial derivative - liabilities	<u>(4,798,401)</u>	<u>-</u>	<u>(4,798,401)</u>	<u>-</u>
January 1, 2013 Description	Total	Fair value Measurement		Level 3
		Level 1	Level 2	
Securities at fair value through in profit or loss				
Treasury Bills	421,663,394	412,882,988	8,780,406	-
Bonds of the Republic of Panama	12,989,533	-	12,989,533	-
Bonds of the Republic of Costa Rica	20,268,102	-	20,268,102	-
Derivatives	7,714,366	-	7,714,366	-
Securities Available for Sale:				
Capital Stocks	1,890,726	-	-	1,890,726
Treasury Bills	38,193,339	-	38,193,339	-
Bonds of the Republic of Panama	317,833,098	32,093,610	285,739,488	-
Corporate Bonds (CERPAN)	33,988,993	-	4,779,641	29,209,352
	<u>128,024,764</u>	<u>-</u>	<u>128,024,764</u>	<u>-</u>
Total	<u>982,566,315</u>	<u>444,976,598</u>	<u>506,489,639</u>	<u>31,100,078</u>
Financial derivative – liabilities	<u>(6,455,197)</u>	<u>-</u>	<u>(6,455,197)</u>	<u>-</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 29. Fair Value Financial Instruments (Continued)

#### (c) Financial Instruments measured at fair value – Fair Value Levels (continued)

Management uses the following valuation techniques for Level 2 financial instruments:

<i>Financial Instrument</i>	<i>Valuation Technique</i>
Debt instrument - Local Treasury Bills	Discounted Cash flows model using information or observable market data such as: USD LIBOR yield rates plus a margin based on the difference between the weighted average yield rate of Treasury bills at a certain time, as observed auctions, and LIBOR interest rate for the same term.
Debt instrument - Multilateral Financial Institutions (CERPAN)	Reference to observable prices for similar issued securities from the same issuer, instruments or yield curves comparable.  CERPAN's quoted prices published weekly by Sistema de Ahorro y Capitalización de Pensiones de los Servidores Públicos multiplied by the number of quota of each CERPAN.
Derivatives - interest rate swaps	Discounted cash flow model using information or observable market data, such as: yield rates LIBOR OIS (Overnight Index Swap) and LIBOR rates zero coupon yield. Additionally, for those interest rate swaps indexed to the different tenors (LIBOR 1M, LIBOR 3M, LIBOR 6M), the Management uses the yield curve corresponding to the tenor in order to estimate the respective implied forward rates; which are used for estimating future cash flows of rights or obligations floating.
Forward contracts to purchase / sale of foreign currencies - derivatives	Discounted cash flow model using observable market data, such as exchange rates and points forward (forward) the foreign exchange market. The latter data is used to construct curves or implicit discount rates for each currency.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 29. Fair Value Financial Instruments (Continued)

#### (d) Level 3 fair value measurements

The table below shows a reconciliation of the opening and closing balance of the financial instruments measure at fair value over a recurrent base on Level 3:

	<b>Capital Stocks</b>	<b>2014 Corporate Bonds</b>	<b>Total</b>
Beginning balance	10,365,334	8,140,000	18,505,334
Gains or (losses) totals:			
In the consolidated statements of comprehensive income	(49,703)	-	(49,703)
Purchases	-	15,784,481	15,784,481
Liquidations and others	<u>(136,609)</u>	<u>(16,000,000)</u>	<u>(16,136,609)</u>
Ending balance	<u>10,179,022</u>	<u>7,924,481</u>	<u>18,103,503</u>
		<b>2013</b>	
	<b>Capital Stocks</b>	<b>Corporate Bonds</b>	<b>Total</b>
Beginning balance	1,890,726	29,209,352	31,100,078
Gains or (losses) totals:			
In the consolidated statements of comprehensive income	3,445,095	4,847	3,449,942
Purchases	-	1,000,000	1,000,000
Liquidations and others	48,568	(8,628,466)	(8,579,898)
Reclassification due to change on valuation technique	4,980,945	-	4,980,945
Transferred to Level 2	<u>-</u>	<u>(13,445,733)</u>	<u>(13,445,733)</u>
Ending balance	<u>10,365,334</u>	<u>8,140,000</u>	<u>18,505,334</u>
		<b>January 1, 2013</b>	
	<b>Capital Stocks</b>	<b>Corporate Bonds</b>	<b>Total</b>
Beginning balance	2,989,700	23,967,431	26,957,131
Gains or (losses) totals:			
In the consolidated statements of comprehensive income	42,500	604,509	647,009
Purchases	-	23,281,065	23,281,065
Liquidations and others	<u>(1,141,474)</u>	<u>(18,643,653)</u>	<u>(19,785,127)</u>
Ending balance	<u>1,890,726</u>	<u>29,209,352</u>	<u>31,100,078</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 29. Fair Value Financial Instruments (Continued)

(d) *Level 3 fair value measurements (continued)*

As of December 31<sup>st</sup>, 2013, there were transfers from Level 3 to Level 2 of B/.13,445,733 of the fair value hierarchy on securities available for sale on a recurring basis because the Administration obtained enough information to measure the fair value of these securities based on observable market data.

Total gains (losses) for the year are presented in the consolidated income statement and consolidated statement of comprehensive income is detailed below:

	<b>Capital stocks</b>	<b>Corporate bonds</b>	<b>Debt security</b>	<b>Total</b>
<b>2014</b>				
Total gains (losses) included in the consolidated statement of profit and loss:				
Gains in financial instruments, net	-	-	-	-
Total gains (losses) recognized in the consolidated statement of comprehensive income:				
Changes on valuation on securities available for sale, net	(49,703)	-	-	(49,703)
<b>2013</b>				
Total gains (losses) included in the consolidated statement of profit and loss:				
Gains in financial instruments, net	-	-	-	-
Total gains (losses) recognized in the consolidated statement of comprehensive income:				
Changes on valuation on securities available for sale, net	3,445,095	4,847	-	3,449,942

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 29. Fair Value Financial Instruments (Continued)

(d) *Level 3 fair value measurements (continued)*

The table below shows information about significant unobservable inputs used as of December 31<sup>st</sup>, 2014, in measuring the financial instruments categorized as Level 3 in the fair value.

Type of financial instrument	Valuation technique	Significant input data un-observable	Criteria or estimation range	Fair value – sensibility measure on data
Corporate Bonds – “Callable”	Valuation of discounted cash flows based on observable interest rate + margin	Margin (basis point) for credit risk	Adjust using margin between 2.0% -4.45%	An increase in the margin would result on an inferior market value
Corporate Bonds	Comparable market prices vs. discounted cash flows base don observable interest rate + margin	Margin (basis point) for credit risk	Adjust using margin between 3.5% -3.8%	An increase in the margin would result on an inferior market value
Variable – yield securities	Reference for bid/ask prices on completed transactions	Reference price or value on unobservable share value	Stock value on reference bid or ask prices on completed transactions	Variation %, lower or upper, on reference securities

For estimates on the fair value of Level 3, the Bank considers the use of different methods and assumptions depending on the type of instrument. The discounted cash flows approach based on risk-free and observable reference interest rate plus a margin for credit risk is used to estimate the fair value of private entities debt issuance (corporate bonds) with high degree of liquidity where the quote lacks availability of objective information. Similarly, the Bank uses this approach to assess whether or not there is a potential impairment on investments with these features.

Other instruments such as shares or equity instruments categorized on Level 3 are valued using the reference bid and ask price on completed transactions.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 29. Fair Value Financial Instruments (Continued)

#### (d) Level 3 fair value measurements (continued)

Although the Bank believes that its fair value estimates are appropriate, the use of different methods or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably alternative assumptions would have the following effects:

2014	Effect on profit or loss		Effect on comprehensive income	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Investments	5,532	(21,295)	1,017,902	(1,096,227)
2013	Effect on profit or loss		Effect on comprehensive income	
	Favorable	(Unfavorable)	Favorable	(Unfavorable)
Investments	-	-	1,015,468	(2,347,979)

The favorable and unfavorable effects of using reasonably possible alternative assumptions for the valuation of debt securities have been assigned to the model with respect to the use of unobservable inputs based on a percentage valuation of the price obtained or margin changes according to the valuation technique. For debt securities with reference price, but lacking liquidity, the Bank sees 10% favorable and unfavorable percentage change. In the case of debt securities which valuation technique is the discounted cash flows using a yield curve plus a spread, specifically corporate bonds which lack of a source of price, a change in the margin of 500 basis points above the risk-free yield curve that is used for the valuation was estimated.

#### (e) Financial instruments not measured at fair value

The following table analyzes the fair value of financial instruments (excluding accumulated interest receivable and payable) not measured at fair value by level:

Description	Level 1	Level 2	Level 3	2014	
				Fair value measurement	Book value
<b>Assets</b>					
Cash and cash equivalents	-	122,988,552	-	122,988,552	122,988,552
Demand deposits on financial institutions	-	593,612,584	-	593,612,584	593,612,584
Time deposits on financial institutions	-	-	300,238,908	300,238,908	299,851,989
Loans	-	-	6,252,700,563	6,252,700,563	6,177,950,039
Total assets	-	716,601,136	6,552,939,471	7,269,540,607	7,194,403,164

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 29. Fair Value Financial Instruments (Continued)

(e) *Financial instruments not measured at fair value (continued)*

Description	Level 1	Level 2	Level 3	2014	
				Fair value measurement Fair value	Book value
<b>Liabilities</b>					
Demand deposits	-	1,635,872,410	-	1,635,872,410	1,635,872,410
Savings deposits	-	1,562,597,451	-	1,562,597,451	1,562,597,451
Time deposits	-	-	3,035,196,465	3,035,196,465	2,869,453,302
Financing	-	-	1,022,579,531	1,022,579,531	1,026,286,333
Total liabilities	-	3,198,469,861	4,057,775,996	7,256,245,857	7,094,209,496

Description	Level 1	Level 2	Level 3	2013	
				Fair value measurement Fair value	Book value
<b>Assets</b>					
Cash and cash equivalents	-	120,779,253	-	120,779,253	120,779,253
Demand deposits on financial institutions	-	868,214,751	-	868,214,751	868,214,751
Time deposits on financial institutions	-	-	369,042,528	369,042,528	371,396,614
Loans	-	-	5,879,083,265	5,879,083,265	5,534,463,821
Total assets	-	988,994,004	6,248,125,793	7,237,119,797	6,894,854,439
<b>Liabilities</b>					
Demand deposits	-	1,357,544,173	-	1,357,544,173	1,357,544,173
Savings deposits	-	1,484,555,262	-	1,484,555,262	1,484,555,262
Time deposits	-	-	2,835,808,280	2,835,808,280	2,786,753,301
Financing	-	-	1,240,672,162	1,240,672,162	1,238,655,418
Total liabilities	-	2,842,099,435	4,076,480,442	6,918,579,877	6,867,508,154

Description	Level 1	Level 2	Level 3	January 1, 2013	
				Fair value measurement Fair value	Book value
<b>Assets</b>					
Cash and cash equivalents	-	159,577,614	-	159,577,614	159,577,614
Demand deposits in financial institutions	-	149,738,706	-	149,738,706	149,738,706
Time deposits in financial institutions	-	-	1,031,420,543	1,031,420,543	1,030,607,116
Loans	-	-	5,728,393,575	5,728,393,575	5,620,479,277
Total de assets	-	309,316,320	6,759,814,118	7,069,130,438	6,960,402,713
<b>Liabilities</b>					
Demand deposits	-	1,579,443,840	-	1,579,443,840	1,579,443,840
Savings deposits	-	1,535,267,273	-	1,535,267,273	1,535,267,273
Time deposits	-	-	3,221,978,704	3,221,978,704	3,186,834,739
Financing	-	-	909,699,302	909,699,302	929,961,768
Total de liabilities	-	3,114,711,113	4,131,678,006	7,246,389,119	7,231,507,620

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 29. Fair Value Financial Instruments (Continued)

#### (e) Financial instruments not measured at fair value (continued)

The table below describes the valuation techniques and input data used on assets and liabilities not measure at fair value classified in the Level 2 and 3 of the fair value hierarchy:

Financial Instrument	Valuation Techniques and Input Data Used
Loans	The fair value represents the estimated discounted cash flows to be received in the future. Provided that the cash flows are discounted to current market rates to determine their fair value.
Time deposits of the Bank, Clients' time deposits, financing	Discounted cash flows using current market interest rates for financing new debt with similar remaining maturity.
Cash, demand deposits and time deposits of the Bank, clients' demand and savings deposits	The book value of these financial instruments is closed to their fair value, due to their short-term maturity.

The following table summarizes the carrying value and estimated fair value of significant assets and liabilities:

	2014					
	Loans	Securities at Fair Value with Changes in Profit or Loss	Securities Available for Sale	Others at Amortized Cost	Book Value	Fair Value
<b>Assets</b>						
Demand deposits in financial institutions	-	-	-	593,612,584	593,612,584	593,612,584
Time deposits in financial institutions	-	-	-	299,851,989	299,851,989	300,238,908
Investments in securities	-	214,600,212	541,029,722	-	755,629,934	755,629,934
Loans	<u>6,177,950,039</u>	-	-	-	<u>6,177,950,039</u>	<u>6,252,700,563</u>
Total	<u>6,177,950,039</u>	<u>214,600,212</u>	<u>541,029,722</u>	<u>893,464,573</u>	<u>7,827,044,546</u>	<u>7,902,181,989</u>
<b>Liabilities</b>						
Demand deposits	-	-	-	1,635,872,410	1,635,872,410	1,635,872,410
Savings deposits	-	-	-	1,562,597,451	1,562,597,451	1,562,597,451
Time deposits	-	-	-	2,869,453,302	2,869,453,302	3,035,196,465
Financing	-	-	-	<u>1,026,286,333</u>	<u>1,026,286,333</u>	<u>1,022,579,531</u>
Total	-	-	-	<u>7,094,209,496</u>	<u>7,094,209,496</u>	<u>7,256,245,857</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 29. Fair Value Financial Instruments (Continued)

(e) *Financial instruments not measured at fair value (continued)*

		2013				
Assets	Loans	Securities at Fair Value with Changes in Profit or Loss	Securities Available for Sale	Others at Amortized Cost	Book Value	Fair Value
Demand deposits in financial institutions	-	-	-	868,214,751	868,214,751	868,214,751
Time deposits in financial Institutions	-	-	-	371,396,614	371,396,614	369,042,528
Investments in securities	-	185,265,151	559,268,483	-	744,533,634	744,533,634
Loans	<u>5,534,463,821</u>	-	-	-	<u>5,534,463,821</u>	<u>5,879,083,265</u>
Total	<u>5,534,463,821</u>	<u>185,265,151</u>	<u>559,268,483</u>	<u>1,239,611,365</u>	<u>7,518,608,820</u>	<u>7,860,874,178</u>
<b>Liabilities</b>						
Demand deposits	-	-	-	1,357,544,173	1,357,544,173	1,357,544,173
Savings deposits	-	-	-	1,484,555,262	1,484,555,262	1,484,555,262
Time deposits	-	-	-	2,786,753,301	2,786,753,301	2,835,808,280
Financing	-	-	-	1,238,655,418	1,238,655,418	1,240,672,162
Total	-	-	-	<u>6,867,508,154</u>	<u>6,867,508,154</u>	<u>6,918,579,877</u>
		January 1, 2013				
Assets	Loans	Securities at Fair Value with Changes in Profit or Loss	Securities Available for Sale	Others at Amortized Cost	Book Value	Fair Value
Demand deposits in financial institutions	-	-	-	149,738,706	149,738,706	149,738,706
Time deposits in financial institutions	-	-	-	1,030,607,116	1,030,607,116	1,031,420,543
Investments in securities	-	454,921,029	531,530,873	-	986,451,902	986,451,902
Loans	<u>5,620,479,277</u>	-	-	-	<u>5,620,479,277</u>	<u>5,728,393,575</u>
Total	<u>5,620,479,277</u>	<u>454,921,029</u>	<u>531,530,873</u>	<u>1,180,345,822</u>	<u>7,787,277,001</u>	<u>7,896,004,726</u>
<b>Liabilities</b>						
Demand deposits	-	-	-	1,579,443,840	1,579,443,840	1,579,443,840
Savings deposits	-	-	-	1,535,267,273	1,535,267,273	1,535,267,273
Time deposits	-	-	-	3,186,834,739	3,186,834,739	3,221,978,704
Financing	-	-	-	929,961,768	929,961,768	909,699,302
Total	-	-	-	<u>7,231,507,620</u>	<u>7,231,507,620</u>	<u>7,246,389,119</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 30. Assets Classified as Held for Sale

At December 31<sup>st</sup>, 2014, the assets held for sale are presented as follows:

	2014	2013	January 1, 2013
Assets held for sale	<u>8,536,007</u>	<u>10,677,536</u>	<u>14,477,003</u>

Through communication to the regulators, the Management approved the sale process of subsidiaries HSBC Colombia S. A. and HSBC Fiduciaria, S. A. The sale of the shares of these subsidiaries was completed on October 17<sup>th</sup>, 2013.

At December 31<sup>st</sup>, 2012, HSBC Colombia S. A. and HSBC Fiduciaria, S. A. presented the following amounts of assets and liabilities, which were classified as held for sale in the consolidated statement of financial position:

	January 1, 2013
Book value of assets available for sale, net of eliminations	<u>1,181,021,175</u>
Book value of liabilities directly associated with assets classified as held for sale, net of eliminations	<u>1,000,169,738</u>

#### Results from Discontinued Operations

At December 31<sup>st</sup>, 2013, HSBC Colombia, S. A. and HSBC Fiduciaria, S. A. presented the following amounts in the consolidated income statement, and were classified as discontinued operations:

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 30. Assets Classified as Held for Sale (Continued)

	2013
Interest and commission income:	
Interest on:	
Loans	59,784,926
Deposits in banks	789,242
Securities	9,525,074
Loan commissions	<u>861,509</u>
Total interest and commissions income	<u>70,960,751</u>
Interest expense:	
Deposits	23,063,320
Borrowings and agreements to repurchase	523,621
Bonds	<u>1,080,046</u>
Total interest expense	<u>24,666,987</u>
Net interest and commissions income	46,293,764
Loss for impairment in financial assets	<u>27,427,829</u>
Net interest and commission income after provisions	<u>18,865,935</u>
Income (expense) for banking services and others:	
Fees and other commissions	13,087,269
Net gain on securities and derivatives	(3,980,683)
Commission expense	(2,724,414)
Other income	<u>4,958,938</u>
Total income from banking services and others, net	<u>11,341,110</u>
General and administrative expenses:	
Salaries and other employee expenses	26,867,497
Rent	3,723,500
Promotion and advertisements	216,872
Fees and professional services	3,640,129
Other expenses	<u>26,516,580</u>
Total general and administrative expenses	<u>60,964,578</u>
Net loss before income tax and participation in associates	<u>(30,757,533)</u>
Income tax	1,731,857
Loss from activities in discontinued operations, net of income tax	(32,489,390)
Gain in discontinued operations	<u>37,236,165</u>
Gain in sale of subsidiaries	4,746,775
Reallocation of goodwill	(13,410,560)
(Expense) income by resolution of contingent liabilities in subsidiaries	<u>(6,416,226)</u>
Net loss for the year from discontinued operations	<u>(15,080,011)</u>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 30. Assets Classified as Held for Sale (Continued)

The net assets and liabilities of the subsidiaries sold at the date of their disposal, are as follows:

Cash, cash equivalents and deposits	(145,652,346)
Investment in securities	(116,184,579)
Loans, net	(485,095,640)
Properties, furniture, equipment and improvements, net of accumulated depreciation and amortization	(11,032,088)
Accounts receivable and other assets	(25,023,184)
Customer and interbank deposits	553,146,130
Bonds payable	26,169,105
Borrowings	36,771,782
Other liabilities	<u>56,678,593</u>
Net assets and liabilities	<u><u>(110,222,227)</u></u>
Cash received from sale	114,969,000
Cash delivered to the disposal of subsidiaries	<u>(145,652,346)</u>
Net cash outflows	<u><u>(30,683,346)</u></u>

The cash flows of discontinued operations as of December 31, 2014 are presented as follow:

Cash flows from operating activities	(210,835,099)
Cash flows from investing activities	163,323,759
Cash flows from financing activities	<u>(12,708,119)</u>
Total cash flow for the year	<u><u>(60,219,459)</u></u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 31. Offsetting Financial Assets and Financial Liabilities

At December 31st, 2012, was applied the early adoption of the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities, whereby the assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when and only when, the Bank has the legal right to offset the recognized amounts and are expected to be settled on a net basis or to realize the asset and settle the liability simultaneously. The operation subject to offsetting was canceled on October 21<sup>st</sup>, 2013.

Following are the assets and liabilities that have been offset in the consolidated statement of financial position at January 1<sup>st</sup>, 2013:

#### Assets

Loans	1,939,533,162
Accrued interest receivable	<u>76,810,050</u>

Gross amounts of financial assets offset in the consolidated statement of financial position	<u>2,016,343,212</u>
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#### Liabilities

Time deposits - foreign	1,939,533,162
Accrued interest payable	<u>76,309,004</u>

Gross amounts of financial liabilities offset in the consolidated statement of financial position	<u>2,015,842,166</u>
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Net amount of financial assets presented in the consolidated statement of financial position after offsetting	<u>501,046</u>
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During December 31<sup>st</sup>, 2013, income and expenses offsets in the consolidated income statement are:

#### Interest income

Interest on loans	121,822,391
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#### Interest expense

Deposits	<u>121,027,721</u>
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Net amount of interest income as presented in the consolidated statement of operations after offsetting	<u>794,670</u>
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## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 32. Main Applicable Laws and Regulations

The principal laws and regulations in the Republic of Panama are listed below:

*(a) Banking Law*

Banking operations in the Republic of Panama, are regulated and supervised by the Superintendency of Banks of the Republic of Panama, according to the law established by Executive Decree No.52 of April 30<sup>th</sup>, 2008, adopting the only text of the Law Decree No. 9 of February 26<sup>th</sup>, 1998, as amended by Decree Law No. 2 of February 22<sup>nd</sup>, 2008, whereby the banking system in Panama is established and the Superintendency of Banks and the rules governing it created.

For purposes of compliance with prudential norms issued by the Superintendency of Banks of Panama, the Bank shall prepare an estimate of the credit reserve based on regulatory guidelines. If the regulatory calculation is greater than the respective calculation determined under IFRS, an excess reserve is recognized in reserves regulatory equity.

*(b) Trust Law*

The trust operations are regulated in Panama by the Superintendency of Banks of Panama according to the legislation established in the Law No.1 of January 5<sup>th</sup>, 1984.

*(c) Securities Law*

The Issuer's operations and stock brokerage in Panama are regulated by the Securities Market Superintendency in accordance to the legislation established by Decree Law No.1 of July 8<sup>th</sup>, 1999, amended through Law No.67 of September 1<sup>st</sup>, 2011.

The operations of brokerage houses are in the process of adaptation to the Rule 4-2011, amended in certain provisions by Rule 8-2013, established by the Superintendency of Securities, which indicate that they are obliged to comply with the capital adequacy rules and modalities.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 32. Main Applicable Laws and Regulations (Continued)

Regulatory standards issued by the Superintendency of Insurance and Reinsurance of Panama:

The capital reserve, for insurance companies, is established annually based on 10% of earnings before income taxes, according to Article 213 of the Insurance Act No.12 of April 3<sup>rd</sup>, 2012, which states that all insurance companies are required to build and maintain, in the country, a reserve fund equivalent to twenty percent (20%) of its net profits before income tax, until constituting a fund of B/.2,000,000, and thereafter ten percent (10%) up to 50% of paid in capital.

Regulatory standards issued by the Superintendency of Banks of Panama on equity reserve for foreclosed assets:

Since August 2009, the Bank considers the prudential standard, issued by the Superintendency of Banks of Panama, which requires banks to establish a capital reserve for assets available for sale based on Agreement 3-2009. The agreement sets a deadline for sale of five (5) years on the property available for sale starting since the registration date in the Public Registry. If after this period the Bank has not yet sold the real estate property acquired, an independent appraisal shall be made on the property to determine whether its value has decreased, based on IFRS's standards. The Bank shall establish a reserve in equity account to which the following allocations of retained earnings, based on the value of the good available for sale, will be made: first year, 10%; second year, 20%; third year, 35%; fourth year, 15% and fifth year, 10%.

Regulatory standards issued by the Superintendency of Banks, effective during the year 2014:

- General Resolution of the Board of Directors SBP-GJD-003-2013 dated July 9<sup>th</sup>, 2013, establishes the accounting treatment for differences arising between prudential standards issued by the Superintendency of Banks and the International Financial Reporting Standards (IFRS). Such that 1) the accounting records and financial statements are prepared in conformity with the IFRS as required by the Agreement No.6-2012 of December 18<sup>th</sup>, 2012, and 2) in the case that a provision or reserve computed, in conformity with prudential standards applicable to banks which exhibits additional specific accounting features others than those required by IFRS, is greater than the computation under the IFRS, the excess of this provision or reserve, under the prudential standards, shall be recorded in a regulatory reserves under equity. This General Resolution became effective for accounting periods ending on or after December 31<sup>st</sup>, 2014.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 32. Main Applicable Laws and Regulations (Continued)

- Agreement No.4-2013 of May 28<sup>th</sup>, 2013, establishes provisions on credit risk management, inherent on loans portfolio and off-balance sheet items, including general classification criteria for credit facilities in order to determine specific provisions and dynamic of credit risk coverage for the Bank. In addition, this Agreement sets certain minimum required disclosures, leveled to those required by IFRS on the management of credit risk.

This Agreement supersedes in its entirety the Agreement No.6-2000 of June 28<sup>th</sup>, 2000 and all its amendments, Agreement No.6-2002 of August 12<sup>th</sup>, 2002, and Article 7 of Agreement No.2-2003 of March 12<sup>th</sup>, 2003. The Agreement became effective on June 30<sup>th</sup>, 2014.

#### Specific provisions

Agreement No.4-2013 states that specific provisions are originated when an objective and concrete evidence of impairment is given. These provisions must be established for credit facilities classified into the following risk categories: special mention, substandard, doubtful, or unrecoverable, for individual credit facilities as well as to a group of credit facilities.

As of December 31<sup>st</sup>, 2014, as a minimum, banks must compute and maintain at all times the amount of specific provision determined using the methodology specified in this Agreement, which takes into consideration the balance owed on each credit facility, classified on one of the categories subject to provision previously mentioned in the above paragraph; the present value of each available warrant mitigating the risk, as establish by type of guaranty in this Agreement; and a weighted average table applied to the net balance exposed to loss on such credit facilities.

Article 34 of the Agreement provides that all claims must be classified into the following five (5) categories according to their risk of default and loan conditions, and establishes the minimum provision rate for each classification: Normal 0% Special Mention 2%, 15% Substandard, Doubtful 50%, and 100% Unrecoverable.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 32. Main Applicable Laws and Regulations (Continued)

In the case that an excess on the specific provision computed under this Agreement vs. the provision calculated under the IFRS exists, this excess is accounted for in a regulatory reserve under equity as an increase or decrease allocated to or from retained earnings. The balance of regulatory reserve will not be considered as capital funds for purposes of computing certain index or prudential ratios mentioned in the agreement.

The table below summarizes the classification of the loan portfolio based on Agreement 6-2000 issued by the Superintendency of Banks of Panama as of December 31<sup>st</sup>, 2013 and based on Agreement 4-2013 as of December 31<sup>st</sup>, 2014.

	2014		2013	
	Loans	Reserves	Loans	Reserves
<b>Individual impairment test</b>				
Special mention	76,132,085	3,947,788	145,429,272	4,619,342
Substandard	60,446,367	18,534,511	40,421,402	11,918,690
Doubtful	29,690,209	10,898,145	53,078,963	26,539,491
Unrecoverable	<u>28,998,257</u>	<u>10,668,058</u>	<u>7,618,950</u>	<u>7,618,950</u>
Gross Amount	<u>195,266,918</u>	<u>44,048,502</u>	<u>246,548,587</u>	<u>50,696,473</u>
<b>Collective impairment test</b>				
Normal	<u>5,920,267,843</u>	-	<u>5,221,868,837</u>	-
	<u>6,115,534,761</u>	-	<u>5,468,417,424</u>	-
Total – subsidiaries	<u>188,763,930</u>	-	<u>189,423,448</u>	<u>5,354,876</u>
Global allowance	-	-	-	<u>3,863,765</u>
Total	<u>6,304,298,691</u>	<u>44,048,502</u>	<u>5,657,840,872</u>	<u>59,915,114</u>

#### Dynamic Provision

Agreement No.004-2013 states that the dynamic provision is a reserve established to meet possible future needs for establishment of specific provisions, which is governed by its own criteria prudential banking regulation. The dynamic provision is constituted on a quarterly basis taking into account the data of the last day of the quarter.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 32. Main Applicable Laws and Regulations (Continued)

The dynamic provision amount is obtained computing the following components:

1. Component 1: Is the amount obtained by multiplying the balance of weighted-average assets based on risk, applied only to credit facilities classified under the normal category by the alpha coefficient 1.50%.
2. Component 2: Is the amount obtained by multiplying the balance of weighted-average assets based on risk, applied only to credit facilities classified under the normal category, if positive by the beta coefficient 5%. If the variation is negative the amount is zero.
3. Component 3: Is the change, in the balance of specific provisions, in the quarter.

The amount of dynamic provision is the sum of the two components, obtained on bullets 1 and 2 minus the third component, with its sign; the amount obtained in bullet 3 has to be added if this component is negative. The amount of the dynamic provision must comply with the following restrictions:

- a. It cannot be greater than 2.5% of its weighted average assets based on risk in relation to credit facilities classified under the normal category.
- b. Cannot be less than 1.25% of its weighted average assets based on risk in relation to credit facilities classified under the normal category.
- c. Cannot be decrease in relation to the amount established in the previous quarter, except that the decrease is attributed to the conversion of specific provisions. The Superintendency of Banks establishes criteria for the aforesaid conversion.

The dynamic provision is an equity item that increases or decreases allocated to or from retained earnings. The credit balance of this dynamic provision is part of the regulatory capital, but does not replace or offset the capital adequacy requirements established by the Superintendency.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 32. Main Applicable Laws and Regulations (Continued)

The following table summarizes the dynamic provision balance constituted by the Bank and each of the following subsidiaries as of December 31<sup>st</sup>, 2014:

Entity	Balance
Banistmo, S. A.	71,192,191
Leasing Banistmo, S. A.	709,279
Seguros Banistmo, S. A.	3,311
Financomer and Affiliates, S. A.	<u>1,813,003</u>
	<u>73,717,784</u>

The requirement to establish dynamic provisions is not applicable to microfinance banks, for which must maintain an additional provision of 1% on the loan portfolio that has been classified under the normal category following the methodology of loan classification that this Agreement has established for these microfinance banks.

#### Regulatory Reserve on Loans under Equity

General Resolution of Board of Directors of the Superintendency of Banks of Panama SBP-GJD-0003-2013 establishes that, in order to present its financial statements in conformity with the IFRS, when the Bank identifies differences between the applications of the IFRS vs. the prudential standards issued by the Superintendency of Banks, it will continue the following methodology:

1. Executing the computations of the accounting balances applying the IFRS and the prudential standards issue by the Superintendency of Bank and comparing the amounts.
2. Where the computation made in accordance with the IFRS results in a higher reserve or provision for the Bank than the one resulting from the use of prudential regulations, the Bank will recognized the IFRS figures.
3. When the impact of using prudential standards result in a greater reserve or provision for the Bank, the effect of the usage of IFRS shall also be recorded in income, and the difference between both computations shall be recorded under retained earnings on a regulatory reserve under equity. In the event that the Bank does not have sufficient retained earnings, the difference shall be presented under an accumulated deficit account.

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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### 32. Main Applicable Laws and Regulations (Continued)

4. The regulatory reserve, referred to in the previous paragraph, cannot be reversed against retained earnings while there are still differences between the IFRS and prudential standards that originated it.

### 33. Transition to the IFRS Explanation

The Bank used the IFRS 1 for the preparation of these financial statements, and January 1<sup>st</sup>, 2013 is used as the transition date.

The accounting standards established on Note 2(a) have been applied for the preparation of the financial statements for the year then ended as of December 31<sup>st</sup>, 2014 and its comparative information.

For the preparation of the Balance Sheet statement on First-time adoption of IFRS, the Bank has adjusted amounts previously reported in the financial statements prepared in accordance to the International Financial Reporting Standards, as modified by prudential regulations enacted by the Superintendency of Banks of Panama for supervisory purposes.

Result of the IFRS adoption for the statement of cash flow is as follows:

	<b>Prudential Regulations</b>	<b>Transition to IFRS's effects</b>	<b>IFRS</b>
Cash from operating activities, net	(510,580,780)	-	(510,580,780)
Cash from investing activities, net	<u>114,165,343</u>	<u>-</u>	<u>114,165,343</u>
Increase in cash and cash equivalents, net	(396,415,437)	-	(396,415,437)
Cash and Cash equivalents, beginning balance	<u>1,427,881,432</u>	<u>-</u>	<u>1,427,881,432</u>
Cash and cash equivalents, ending balance	<u>1,031,465,995</u>	<u>-</u>	<u>1,031,465,995</u>

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 33. Transition to the IFRS Explanation (Continued)

As follows, table shows the transition to IFRS and the way it has affected the financial situation, financial performance and the cash flow of the Bank:

	Ref.	January 1, 2013			December 31, 2013		
		Previous Figures	IFRS Transition Effects	IFRS	Previous Figures	IFRS Transition Effects	IFRS
<b>Assets</b>							
Cash and cash equivalents		159,577,614	-	159,577,614	120,779,253	-	120,779,253
Deposits in financial institutions:							
Demand - local		64,635,731	-	64,635,731	55,394,044	-	55,394,044
Demand - foreign		85,102,975	-	85,102,975	812,820,707	-	812,820,707
Time - local		152,000,000	-	152,000,000	158,790,000	-	158,790,000
Time - foreign		878,607,116	-	878,607,116	212,606,614	-	212,606,614
Accumulated interest receivable		396,283	-	396,283	683,327	-	683,327
Deposits in financial institutions - total		1,180,742,105	-	1,180,742,105	1,240,294,692	-	1,240,294,692
Cash, cash equivalents and deposits - total		1,340,319,719	-	1,340,319,719	1,361,073,945	-	1,361,073,945
Securities at fair value through profit-or-loss		454,921,029	-	454,921,029	185,265,151	-	185,265,151
Available-for-sale securities		531,530,873	-	531,530,873	559,268,483	-	559,268,483
Accumulated interest payable		3,316,970	-	3,316,970	3,616,623	-	3,616,623
		989,768,872	-	989,768,872	748,150,257	-	748,150,257
Loans		5,751,873,624	-	5,751,873,624	5,657,840,872	-	5,657,840,872
Minus:							
Allowance for uncollectable loans	(a)	60,334,376	(3,991,285)	56,343,091	59,915,114	(687,869)	59,227,245
Interest and commissions discounted and unearned		75,051,256	-	75,051,256	64,149,806	-	64,149,806
Accumulated interest receivable		33,457,919	-	33,457,919	28,313,311	-	28,313,311
Loans, net		5,649,945,911	3,991,285	5,653,937,196	5,562,089,263	687,869	5,562,777,132
Held-for-sale financial assets		1,195,498,178	-	1,195,498,178	10,677,536	-	10,677,536
Investment in associates		221,270	-	221,270	425,021	-	425,021
Property, furnishings, equipment, and improvements, net from accumulated depreciation and amortization		67,542,169	-	67,542,169	68,128,925	-	68,128,925
Customer liabilities under acceptances		52,694,326	-	52,694,326	31,918,347	-	31,918,347
Deferred income tax	(b)	21,710,186	(997,821)	20,712,365	16,745,286	(171,968)	16,573,318
Other assets		310,303,198	-	310,303,198	262,322,443	-	262,322,443
Total assets		9,628,003,829	2,993,464	9,630,997,293	8,061,531,023	515,901	8,062,046,924

# Banistmo, S. A. and Subsidiaries

## Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

### 33. Transition to the IFRS Explanation (Continued)

Ref.	January 1, 2013			December 31, 2013		
	Previous Figures	IFRS Transition Effects	IFRS	Previous Figures	IFRS Transition Effects	IFRS
<b>Liabilities and Equity</b>						
Liabilities:						
Client deposits:						
Demand - local	1,460,448,293	-	1,460,448,293	1,291,084,383	-	1,291,084,383
Demand - foreign	118,995,547	-	118,995,547	66,459,790	-	66,459,790
Savings	1,535,267,273	-	1,535,267,273	1,484,555,262	-	1,484,555,262
Time - local	2,582,850,985	-	2,582,850,985	2,406,861,809	-	2,406,861,809
Time - foreign	275,667,906	-	275,667,906	201,604,945	-	201,604,945
Interbank - local	137,793,736	-	137,793,736	139,502,047	-	139,502,047
Interbank - foreign	190,522,112	-	190,522,112	38,784,500	-	38,784,500
Accumulated interest payable	28,937,580	-	28,937,580	34,615,233	-	34,615,233
Deposits - total	<u>6,330,483,432</u>	-	<u>6,330,483,432</u>	<u>5,663,467,969</u>	-	<u>5,663,467,969</u>
Held-for-sale financial liabilities	1,000,169,738	-	1,000,169,738	-	-	-
Financing	929,961,768	-	929,961,768	1,238,655,418	-	1,238,655,418
Accumulated interest payable	2,149,189	-	2,149,189	2,343,203	-	2,343,203
	<u>932,110,957</u>	-	<u>932,110,957</u>	<u>1,240,998,621</u>	-	<u>1,240,998,621</u>
Deferred income tax	-	-	-	686,838	-	686,838
Pending acceptances	52,694,326	-	52,694,326	31,918,347	-	31,918,347
Cashier checks and certificates	55,730,466	-	55,730,466	43,628,267	-	43,628,267
Sundry creditors	278,496,172	-	278,496,172	208,020,838	-	208,020,838
Sundry creditors - insurance business	62,688,547	-	62,688,547	61,906,392	-	61,906,392
Total liabilities	<u>8,712,373,638</u>	-	<u>8,712,373,638</u>	<u>7,250,627,272</u>	-	<u>7,250,627,272</u>
Equity:						
Capital	628,692,352	-	628,692,352	622,491,973	-	622,491,973
Preferred stocks	147,151,800	-	147,151,800	147,151,800	-	147,151,800
Payment based on stocks	1,139,388	-	1,139,388	-	-	-
Capital reserve	6,429,539	-	6,429,539	2,500,000	-	2,500,000
Reserve for foreclosed assets	3,604,754	-	3,604,754	3,816,190	-	3,816,190
Regulatory reserve for insurance business	35,403,245	-	35,403,245	36,312,856	-	36,312,856
Reserve for valuation on investment securities	15,021,234	-	15,021,234	15,567,510	-	15,567,510
Hedge cash flow	(9,897,427)	-	(9,897,427)	(7,200,065)	-	(7,200,065)
Amount recognized in other comprehensive income and accumulated in equity for non-current assets held for sale	40,390,257	-	40,390,257	-	-	-
Sur-tax	(6,581,991)	-	(6,581,991)	(2,860,893)	-	(2,860,893)
Retained earnings (accumulated deficit)	54,154,162	2,993,464	57,147,626	(6,875,620)	515,901	(6,359,719)
	<u>915,507,313</u>	<u>2,993,464</u>	<u>918,500,777</u>	<u>810,903,751</u>	<u>515,901</u>	<u>811,419,652</u>
Non-controlling interest	122,878	-	122,878	-	-	-
Total equity	<u>915,630,191</u>	<u>2,993,464</u>	<u>918,623,655</u>	<u>810,903,751</u>	<u>515,901</u>	<u>811,419,652</u>
Total liabilities and equity	<u>9,628,003,829</u>	<u>2,993,464</u>	<u>9,630,997,293</u>	<u>8,061,531,023</u>	<u>515,901</u>	<u>8,062,046,924</u>

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

#### 33. Transition to the IFRS Explanation (Continued)

	Ref.	December 31, 2013		
		Previous Figures	IFRS Transition Effect	IFRS
Interest and commissions income, net		267,048,262	-	267,048,262
Provision for loan losses	(a)	38,145,998	3,303,416	41,449,414
Total income from banking services and others		58,870,114	-	58,870,114
Total general and administrative expenses		228,067,576	-	228,067,576
Income tax	(b)	22,130,200	(825,854)	21,304,346
Equity interest in associates		154,146	-	154,146
Loss of the year due to discontinued operations, net of income tax		<u>(15,080,011)</u>	<u>-</u>	<u>(15,080,011)</u>
Net profits		<u>22,648,737</u>	<u>(2,477,562)</u>	<u>20,171,175</u>
<b>Other comprehensive income (expenses):</b>				
Adjustments due to currency exchange		(37,305,794)	-	(37,305,794)
Payments based on stocks		(1,132,540)	-	(1,132,540)
Effective portion from changes in fair value		2,697,362	-	2,697,362
Unrealized gain on changes in fair value from available-for-sale securities, net		(1,116,878)	-	(1,116,878)
Net changes on available for sale securities transferred to the consolidated income statements		<u>(1,504,639)</u>	<u>-</u>	<u>(1,504,639)</u>
Total net of other comprehensive losses		<u>(38,362,489)</u>	<u>-</u>	<u>(38,362,489)</u>
Comprehensive losses		<u>(15,713,752)</u>	<u>(2,477,562)</u>	<u>(18,191,314)</u>

#### Explanation of the notes to the reconciliations

- Adjustment for IFRS reserve for loans.
- Adjustment of Deferred Income Tax due to the adjustment for IFRS reserve for loans.
- Retain Earnings effect on adjustments a, b, and c.

Under the previous accounting framework, the Bank recorded the loan reserves based on the prudential standards issued by the Superintendency of Banks of Panama. These standards stated that the total allowance for loan losses was not less than 1% of the total balance of the loan portfolio minus any deposits warrants established in the Bank itself.

## Banistmo, S. A. and Subsidiaries

### Notes to the Consolidated Financial Statements December 31, 2014 (Stated in Balboas)

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#### 33. Transition to the IFRS Explanation (Continued)

With the adoption of the IFRS for the period ended as of December 31<sup>st</sup>, 2014, the Bank presents its figures in these financial statements in accordance with the requirements of IFRS 1 - First-time Adoption of the International Financial Reporting Standards. This first-time adoption of IFRS resulted in adjustments on reserve accounts for loans, deferred income tax assets, retained earnings, regulatory reserve under equity, provision for loan losses, and deferred income tax expense. In the tables above, the impact of these adjustments can be seen.

#### 34. Unconsolidated Structured Entities

The following table describes the types of structured entities in which the Bank does not hold an interest, but acts as a sponsor to it. The Bank is considered as a sponsor of a structured entity when facilitates its establishment.

Type of structured entity	Nature and purpose	Interest held by the Bank
Separate vehicles - Private trusts	To generate commissions from administration services, and collection and payment agent  To assure the payments in the concept of principal, interest or any other concepts owe by the trustor	None

As of December 31<sup>st</sup>, 2014, the Bank does not have any contractual obligation to provide financial support or other assistance to these unconsolidated structured entities.

**ISSUER AND THE BANK**

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**Banistmo S.A.**

**US\$500,000,000  
3.650% Senior Notes due 2022**

*Bookrunners and Lead Managers*

**J.P. Morgan      Morgan Stanley**

*Co-manager*

**Valores Banistmo**

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**Offering Memorandum**

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**September 12, 2017**