Atlantic Security Bank

Report and Financial Statements
December 31, 2018

Atlantic Security Bank

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December 31, 2018

Independent auditor's report

To the Board of Directors of Atlantic Security Bank

Our opinion

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

What we have audited

The financial statements of the Bank standing alone comprise:

- the statement of financial position as at December 31, 2018;
- the statement of income for the year then ended,
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Other matter
This report, including the opinion, has been prepared for and only for the Bank in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

April 29. 2019

Atlantic Security Bank

Statement of Financial Position
December 31, 2018
(Amount expressed in thousands of US$ dollars)

	2018	2017
Assets		
Cash and cash equivalents (Note 5)		
Cash	21	5
Interest - bearing deposits with banks (Note 11)	94,538	53,772
Overnight placements	37,859	130,254
Total cash and cash equivalents	132,418	184,031
Risk portfolio, net (Notes 6 and 11)	1,639,290	1,836,387
Derivatives financial instruments (Note 9)	717	527
Investments in subsidiary (Notes 7 and 11)	6,075	5,890
Premises and equipment, net	964	1,120
Other assets (Notes 8 and 11)	76,218	24,417
Total assets	1,855,682	2,052,372
Liabilities and Equity		
Liabilities		
Deposits		
Non interest - bearing (Note 11)	407,126	546,946
Interest - bearing		
Demand (Note 11)	48,234	68,882
Time (Note 11)	843,678	1,006,315
Financing and borrowing funds (Note 10)	237,965	146,934
Derivatives financial instruments (Note 9)	1,655	728
Other liabilities (Notes 11 and 12)	84,952	12,869
Total liabilities	1,623,610	1,782,674
Commitments and contingencies (Notes 15 and 17)		
Equity		
Share capital (Note 13)	70,000	70,000
Reserve for valuation on securities (Note 6)	(21,371)	21,325
Retained earnings	183,443	178,373
Total equity	232,072	269,698
Total liabilities and equity	1,855,682	2,052,372

Raimundo Morales
Director

Benedicto Cigueñas
Director

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

Atlantic Security Bank

Statement of Income
For the year ended December 31, 2018
(Amount expressed in thousands of US$ dollars)

	2018	2017
Interest and Similar Income		
Interest on deposits with banks and overnight placements	2,027	1,238
Interest and dividends on investment	35,128	35,537
Interest on loans	26,004	36,201
Total interest and dividend income (Note 11)	63,159	72,976
Interest Expense		
Interest on deposits	17,864	26,767
Interest on borrowed funds	6,800	998
Total interest expense (Note 11)	24,664	27,765
Net interest and dividend income before provision for expected credit losses	38,495	45,211
Provision for expected credit losses (Note 6)	(31)	-
Net interest and dividend income after provision	38,464	45,211
Non-Interest Income (Expense)		
Revenue from contracts with customer (Notes 11 and 14)	19,308	18,185
Fees and commission expense (Note 11)	(9,473)	(9,263)
Net (loss) gain on securities (Note 6)	(130)	10,086
(Provision) reversal for expected credit losses on securities (Note 6)	(697)	1,266
Net losses on derivatives financial instruments (Note 9)	(346)	(21)
Net (loss) gain in foreign exchange transaction	(132)	84
Other income (Note 16)	417	450
Total non-interest income, net	8,947	20,787
Operating Expenses		
Salaries and employee benefits (Note 11)	7,449	6,293
General and administrative expenses (Note 11)	5,474	5,466
Depreciation and amortization	334	321
Total operating expenses	13,257	12,080
Net profit for the year	34,154	53,918

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

Atlantic Security Bank

Statement of Comprehensive Income
For the year ended December 31, 2018
(Amount expressed in thousands of US$ dollars)

	2018	2017
Net profit for the year	34,154	53,918
Other Comprehensive Income (Note 6)		
Items that may be reclassified to profit or loss in subsequent periods:		
Reserval of provision for expected credit losses - investments	1,648	-
Net loss on fair value to other comprehensive income (Note 6)	(36,691)	-
Realized loss (gains) on investment transfer to profit and loss	3,248	(5,357)
Net gain on available-for-sale financial assets (Note 6)	-	10,568
	(31,795)	5,211
Total comprehensive income for the year	2,359	59,129

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

Atlantic Security Bank

Statement of Changes in Equity
For the year ended December 31, 2018
(Amount expressed in thousands of US$ dollars)

	Share Capital	Reserve for Valuation of Available-for-Sale Financial Assets	Reserve for Valuation of Investments Fair Value to OCI	Retained Earnings	Total Equity
Balance at December 31, 2016	70,000	16,114	-	171,455	257,569
Net profit	-	-	-	53,918	53,918
Other comprehensive income (Note 6)	-	5,211	-	-	5,211
Total comprehensive income	-	5,211	-	53,918	59,129
Transactions with the shareholder					
Dividends paid	-	-	-	(47,000)	(47,000)
Balance at December 31, 2017	70,000	21,325	-	178,373	269,698
Change in account policy (Note 2)	-	(21,325)	10,424	10,916	15
Balance at January 1, 2018 - restated	70,000	-	10,424	189,289	269,713
Net profit	-	-	-	34,154	34,154
Other comprehensive income (Note 6)	-	-	(31,795)	-	(31,795)
Total comprehensive income	-	-	(31,795)	34,154	2,359
Transactions with the shareholder					
Dividends paid	-	-	-	(40,000)	(40,000)
Balance at December 31, 2018	70,000	-	(21,371)	183,443	232,072

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

Atlantic Security Bank

Statement of Cash Flows
For the year ended December 31, 2018
(Amount expressed in thousands of US$ dollars)

	2018	2017
Cash flows from operating activities		
Net profit	34,154	53,918
Adjustments to reconcile net profit to net cash flows (used in) provided by operating activities:		
Interest expense	24,664	27,765
Interest and similar income	(63,159)	(72,976)
Provision (reversal of provision) for expected credit losses on securities	697	(1,266)
Provision for expected credit losses	31	-
Net realized loss (gain) on securities	130	(10,086)
Net loss on derivatives financial instruments	346	21
Depreciation and amortization	334	321
Net changes in operating assets and liabilities:		
Loans	83,340	103,443
Deposits	(321,811)	(55,812)
Other assets and other liabilities	21,021	(14,209)
Interest paid	(24,358)	(28,850)
Interest and dividends received	63,625	75,300
Net cash flows (used in) provided by operating activities	(180,986)	77,569
Cash flows from investing activities		
Purchases of financial assets	(2,173,406)	(1,081,740)
Sales of financial assets	2,253,711	980,581
Investments in subsidiary	(186)	(5,890)
Acquisition of premises and equipment	(178)	(84)
Net cash flows provided by (used in) investing activities	79,941	(107,133)
Cash flows from financing activities		
Proceeds from borrowing funds	946,443	437,475
Payment of borrowing funds	(857,011)	(326,390)
Dividends paid	(40,000)	(47,000)
Net cash flows provided by financing activities	49,432	64,085
Net (decrease) increase in cash and cash equivalents	(51,613)	34,521
Cash and cash equivalents at January 1	184,031	149,510
Cash and cash equivalents at December 31 (Note 5)	132,418	184,031

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

1. Corporate Information

Atlantic Security Bank (the "Bank") is a wholly-owned subsidiary of Atlantic Security Holding Corporation (ASHC), incorporated under the laws of the Cayman Islands and operates under a Category "B" Banking and Trust license from the Government of the Cayman Islands. The Bank has also been granted a Mutual Fund Administrators license under the Mutual Funds Law of the Cayman Islands. The Bank is incorporated and domiciled in the Cayman Islands.

The registered office of the Bank is located at Ugland House, South Church St. KY1-1104, George Town, Cayman Islands.

The ultimate parent company of ASHC is Credicorp Ltd., which is a limited liability company and is incorporated and domiciled in Bermuda. Credicorp Ltd. has a primary listing on the New York Stock Exchange under quote symbol "BAP" with further listing in the Peruvian Stock Exchange.

The Bank provides investment banking, financial advisory, trading and investment services to Latin American customers. The Bank has a Branch in the Republic of Panama ("Panama Branch"), operating under an international license granted by the Superintendency of Banks of Panama, allowing banks to conduct, exclusively from an office in Panama, transactions which are intended to take effect outside the country.

Laurentian Corporate Services is a controlled subsidiary of Atlantic Security Bank (ASB) incorporated on February 17, 2011, since its incorporation has not been operating. This company was also created in order to establish services between ASB Trust Company Ltd. and ASB.

Correval Panama, S. A. (Correval), incorporated in the Republic of Panama in October 2009, is a controlled subsidiary of Atlantic Security Bank (ASB). Correval holds a Securities license granted by the Superintendency of Security Market of Panama and operates as a brokerage company with operations based in Panama and the international markets. During November 2017, ASB acquired Correval and through Resolution No.SMV-617-17 of November 7, 2017, the Superintendency of Security Market of Panama authorized the change of stock control. With this acquisition, ASB looks to improve and consolidate processes, services and operations related to brokerage activities.

The financial statements were approved for issue according to resolution of the Board of Directors of Atlantic Security Bank on April 29, 2019.

2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies used in the preparation of the financial statements. These policies have consistently been applied with respect to the previous year, unless indicated otherwise.

Basis of Preparation and Use of Estimates
The financial statements of Atlantic Security Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board ("IASB"). These financial statements are separate financial statements.

The financial statements have been prepared on an historical cost basis, except for the measurement of investments at fair value through profit or loss, investments at fair value through other comprehensive income, financial assets designated at fair value through profit or loss (2017: investments at fair value through profit or loss, investments available-for-sale, financial assets designated at fair value through profit or loss, derivative financial instruments); which have been measured at fair value.

The financial statements are presented in Dollar of United States of America, and values are rounded to the nearest US$/Thousands, except when otherwise indicated.

The preparation of the financial statements in accordance with IFRS requires Management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosures of significant events in notes to the financial statements.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The final results could differ from said estimates; however management expect that the variations, if any, will not have a material impact on the financial statements.

As of December 31, 2018, the most significant estimates included in the accompanying financial statements are related to the calculation of the expected loss for investments at fair value through other comprehensive income and investments at amortized cost, the valuation of investments, expected loss for loans, and the valuation of derivative financial instruments.

2. Summary of Significant Accounting Policies (Continued)

Basis of Preparation and Use of Estimates (continued)
As of December 31, 2017, the most significant estimates included in the accompanying financial statements were related to allowance for loan losses, the valuation of investments, the impairment of available-for-sale investments and investments held to maturity, and the valuation of derivative financial instruments. Furthermore, other estimates exist, such as the estimated useful life of intangible assets, property, furniture and equipment. The accounting criteria used for said estimates are described below.

The accounting policies adopted are consistent with those of the previous years, except that the Bank has adopted the new revised IFRS, which are mandatory for the periods beginning on or after January 1, 2018, as described below:

(i) IFRS 9 “Financial Instruments” - In July 2014, the IASB issued the complete version of IFRS 9, which combines the phases of classification and measurement, impairment and hedging accounting to replace IAS 39.

“Financial instruments: Measurement and Recognition”.

IFRS 9 establishes three categories of classification and measurement for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. This classification is used by the entity's business model to manage the financial assets and the characteristics of the contractual cash flows of the financial assets. With respect to financial liabilities, the majority of classification and measurement requirements included in IFRS 9 are similar to those in IAS 39.

IFRS 9 introduces a new impairment model based on expected credit losses involving three stages approach whereby financial assets go through these stages when their credit quality changes. This model differs significantly from the model under IAS 39 related to credit losses incurred, which results in the early recognition of credit losses.

In addition, the current model of hedge accounting according to IFRS 9 simplifies hedge accounting, aligns the accounting of the hedging relationships more closely with the risk management activities of an entity and permits hedge accounting to be applied more widely to a greater variety of hedging instruments and risks suitable for hedge accounting.

The new classification, measurement and impairment requirements were applied adjusting our statement of financial position at January 1, 2018, date of initial application, without restating the financial information for the comparative period, as permitted by the aforementioned accounting standard.

The initial recognition, subsequent measurement and determination of impairment are explained in Note 2.

(Amount expressed in thousands of US$ dollars)

2. Summary of Significant Accounting Policies (Continued)

Basis of Preparation and Use of Estimates (continued)

Classification and measurement of financial assets

The following table presents the measurement categories and the carrying value of the financial instruments under IAS 39 as of December 31, 2017 and IFRS 9 as of January 1, 2018:

	IAS 39		IFRS 9	
Financial assets	**Category**	**Carrying amount**	**Category**	**Carrying amount**
Cash and cash equivalents	Loans and receivables	184,031	At amortized cost	184,031
Risk portfolio, net:				
Investments	At fair value through profit or loss	49,621	At fair value through profit or loss	49,621
	Available-for-sale	858,939	At fair value through profit or loss	41,169
			At fair value through other comprehensive income (Debt instruments)	817,770
	Held-to-maturity	102,424	At amortized cost	102,424
Loans, net	Loans and receivables	825,403	At amortized cost	825,403
Derivatives financial instruments	At fair value for trading purposes	527	At fair value through profit or loss	527
	Total financial assets	2,020,945		2,020,945
Financial liabilities				
Deposits	At amortized cost	1,622,143	At amortized cost	1,622,143
Financing and borrowing	At amortized cost	146,934	At amortized cost	146,934
Derivatives financial instruments	At fair value through profit or loss	728	Fair value through profit or loss	728
	Total financial liabilities	1,769,805		1,769,805

2. Summary of Significant Accounting Policies (Continued)

Basis of Preparation and Use of Estimates (continued)

Classification and measurement of financial assets (continued)

Reconciliation of balances of the statement of financial position from IAS 39 at December 31, 2017 to IFRS 9 at January 1, 2018.

The following table presents the detail of the reconciliation of balances of financial assets under IAS 39 to IFRS 9:

Financial Assets	IAS 39	Change of Category	IIFRS 9
	US$(000)	US$(000)	US$(000)
Cash and cash equivalent	184,031	-	184,031
Risk portfolio			
Investments:			
At fair value through profit or loss			
Opening balance under IAS 39	49,621	-	-
Addition: From investments available-for-sale (*)	-	41,169	-
Closing balance under IFRS 9	-	-	90,790
At fair value through other comprehensive income			
Opening balance under IAS 39	-	-	-
Addition: From investments available for sale	-	817,770	-
Closing balance under IFRS 9	-	–	817,770
Available-for-sale			
Opening balance under IAS 39	858,939	-	-
Subtraction: Reclassification to investments at fair value	-	(41,169)	-
Subtraction: Reclassification to investments at fair value	-	(817,770)	-
Closing balance under IFRS 9	-	-	-
At amortized cost			
Opening balance under IAS 39	-	-	-
Addition: From investments Held to maturity (IAS 39)	-	102,424	-
Closing balance under IFRS 9	-	-	102,424
Held to maturity			
Opening balance under IAS 39	102,424	-	-
Subtraction: Reclassification to investments at amortized cost	-	(102,424)	-
Closing balance under IFRS 9	-	-	-
Loans, net	825,403	-	825,403
Derivative financial instrument	527	–	527
Total	2,020,945	–	2,020,945

2. Summary of Significant Accounting Policies (Continued)

Basis of Preparation and Use of Estimates (continued)

Classification and measurement of financial assets (continued)

(*) The combined application of the tests regarding the characteristics of the contractual cash flows and business models at January 1, 2018, resulted in certain investments classified as "Available-for-sale" under IAS 39, having to be reclassified in the category "At fair value through profit on loss" under IFRS 9. These financial assets maintained unrealized gains in the statement of changes in equity of approximately US$6,494 million in the item "Reserve for valuation in securities (net unrealized gain loss security)", which were reclassified to the item "Retained earnings".

The classification and measurement of the financial liabilities have not had changes due to the application of IFRS 9, except for the provision for expected credit losses, which required minor provision of US$15 thousand. Reconciliation of the balances for expected losses (provision for impairment) under IAS 39 and IFRS 9 as of January 1, 2018, and the total remeasure in equity for change in accounting policy is as follows:

	IAS 39 US$ (000)	Remeasurement US$(000)	IFRS 9 US$ (000)
Investments at fair value to other comprehensive income	-	1,931	1,931
Investments available-for-sale	6,491	(6,491)	-
Investments at amortized cost	-	153	153
Loans	40	(15)	25
	6,531	(4,422)	2,109
Effects of reclassification of FVOCI to FVPL	-	(6,494)	-
Total in equity for change accounting policy	6,531	(10,916)	2,109

IFRS 15 'Revenue from contracts with customer'
IFRS 15, which was published in May 2014 and amended in April 2016, replace IAS 18 'Revenue', and IAS 11 'Construction Contracts'. The new standard is based on the principle that revenue is recognized when the control of a good or service is transferred to a client, so that the notion of control replaces the existing notion of risks and rewards.

2. Summary of Significant Accounting Policies (Continued)

Basis of Preparation and Use of Estimates (continued)

IFRS 15 'Revenue from contracts with customer' (continued)
The standard establishes a new five-step model that applies to the recording of revenue from contracts with clients:

- Identify the contracts with clients;
- Identify the separate performance obligation;
- Determine the price of the contractual transaction;
- Assign the price of the transaction to each of the separate performance obligations; and
- Recognize the revenue as each performance obligation is complied with.

Key changes in current practice:

- All the Bank products and services which are different must be recognized separately and, in general, the discounts or rebates in the contract price must be assigned to the separate elements.
- Revenue can be recognized before it is done under the current standards if the consideration varies for any reason (for example, incentives, rebates, management commissions, etc.). If they are not at significant risk of reversal, the minimum amounts must be recognized.
- The point at which revenue may be recognized can change: some revenue that is currently recognized at a given moment at the end of a contract may have to be recognized during the term of the contract and vice versa.
- There are new specific standards regarding licenses, guarantees, non-reimbursable fee advances and consignment agreements.
- As with any new standard, there are also greater disclosure requirements. ASB assessed the impact of IFRS 15, concluding at the date of these financial statements, that there is no significant impact on the ASB's revenue recognition.
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2. Summary of Significant Accounting Policies (Continued)

Basis of Preparation and Use of Estimates (continued)

New standards issued but not in force during 2018

IFRS 16, 'Leases'
IFRS 16, 'Leases' replaces the current standards related to the treatment of leases (IAS 17, 'Leases' and IFRIC 4, 'Determining whether an arrangement contains a lease" and other related interpretations). IFRS 16 will mainly affect the accounting treatment for lessees, and will result in the recognition of almost all lease contracts in the statement of financial position. The standard eliminates the current distinction between finance and operating leases, and requires the recognition of an asset (right of use of the leased asset) and of a financial liability to make the lease payments, for practically all of the lease contracts. There is an optional exemption for short term and low value leases. The income statement will also be affected, since the total expense is normally higher in the initial years of the lease contract and lower in the final years. Furthermore, the operating costs will be replaced with interest and depreciation, therefore, key metrics such as EBITDA will change. Operating cash flows will be greater since cash payments for the principal portion of the lease debt are classified in financing obligations. Only the part of the payments that reflects interest can continue to be presented as operating cash flow.

IFRS 16 applies to annual periods beginning on or after January 1, 2019, with early adoption permitted but not before IFRS 15, Revenue from contracts with customers, is also early adopted.

During the year 2018, ASB evaluate the impact of IFRS 16; however, at the date of these financial statements, it concludes that the application of this standard will have no material effects on the financial statements and foresee that effect will be approximately US$112 thousands in the first year of application.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2. Summary of Significant Accounting Policies (Continued)

Equity Method and Goodwill

Under IFRS 10 Consolidated Financial Statements an entity that is a parent shall present consolidated financial statements, except as follows:

A parent need not present consolidated financial statements if it meets all the following conditions:

(i) it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
(ii) its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
(iii) it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and
(iv) its ultimate or any intermediate parent produces financial statements that are available for public use and comply with IFRSs, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with this IFRS.

Considering the above, the Bank share in some fully owned subsidiaries shall be accounted using the purchase method of accounting. This involves recognizing identifiable assets and liabilities of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the statement of income in the year of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Foreign Currency Operations

Functional Presentation Currency

The financial statements are prepared in United States of America dollars (US$), the functional currency of the Bank and all values are rounded to the nearest thousand (US$000) except when otherwise indicated. The Bank presents its statement of financial position in order of liquidity.

2. Summary of Significant Accounting Policies (Continued)

Foreign Currency Operations (continued)

Transactions and Balances
The Bank's transactions are performed mostly in U.S. dollars, its functional and reporting currency. Foreign currency transactions are translated into U.S. dollars at the prevailing exchange rates on the date of the transaction. Foreign exchange gains or losses resulting

from the settlement of such transactions are recorded in the statement of income and the translation of monetary assets and liabilities denominated in foreign currencies are adjusted at the exchange rates of the functional currency prevailing at the date of the statement of financial position.

The differences arising from the exchange rate prevailing at the date of each statement of financial position presented and the exchange rate initially used in recording transactions are recognized in the statement of income in the period in which they occur, in "Net gain on foreign exchange transaction".

Translation differences on debt securities and other financial assets measured at fair value are included as foreign translation income in the statement of income with the exception of difference on foreign borrowing that provide an effective hedge against a net investment in a foreign security which are taken directly to other comprehensive income until the disposal of net investment, at which time they are recognized in the statement of income.

Cash and Cash Equivalents
For presentation purposes in its statement of cash flows, the Bank considers as cash and cash equivalents all highly liquid instruments with original maturities of three months or less.

Financial Assets
A financial instrument is any agreement that originates a financial asset of one entity and a financial liability or equity instrument of another entity.

The Bank determined the classification of its financial instruments at initial recognition.

All the financial instruments are initially recognized at fair value plus the incremental costs related to the transaction that are directly attributable to the purchase or issue of the instrument, except in the case of financial assets or liabilities carried at fair value through profit or loss.

The purchases or sales of financial assets that require the delivery of the assets within a term established according to market regulations or conventions (regular market terms) are recognized on the negotiation date, in other words, the date in which the Bank commits to purchase or sell the asset. The derivatives are recognized on the trading date.

2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

Accounting policies applicable from January 1, 2018

At January 1, 2018, the Bank classified the financial assets in one of the categories defined by IFRS 9: financial assets at fair value through profit or loss, at fair value though other comprehensive income and at amortized cost, based on:

- The business model for managing the financial assets, and
- The characteristics of the contractual cash flows of the financial asset.

Business model
Represents how the financial assets are managed to generate cash flows and it does not depend on the Management's intention with regard to an individual instrument. Financial assets can be managed for the purpose of: i) obtaining contractual cash flows; ii) obtaining contractual cash flows and sale; or iii) others. In order to evaluate the business models, the Bank considers the risks that affect the performance of the business model, and how the performance of the business model is evaluated and informed to Management. If the cash flows are carried out in a manner other than what is expected by the Bank, the classification of the remaining financial assets maintained in this business model is not modified.

When the financial asset is maintained in the business models i) and ii), it requires the application of the "Solely Payments of Principal and Interest" test - "SPPI".

SPPI Test
This test consists in the evaluation of the cash flows generated by a financial instrument in order to verify if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest. In order to conform to this concept, the cash flows must solely include the consideration of the time value of money, and the credit risk. If the contractual terms introduce risk exposure or cash flow volatility, such as the exposure to changes in the prices of capital instruments or the prices of raw materials, the financial asset is classified at fair value through profit or loss. Hybrid contracts must be evaluated as a whole, including all the integrated characteristics. The accounting of a hybrid contract that contains an embedded derivative is carried out jointly, in other words, the entire instrument is measured at fair value through profit or loss.

(i) Financial assets at amortized cost
A financial asset is classified at amortized cost if: a) it is held within a business model the objective of which is to maintain the financial asset to obtain the contractual cash flows, and b) the contractual conditions give rise, on specified dates, to cash flows that are solely payments of the principal and interest.

2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

SPPI Test (continued)

(i) Financial assets at amortized cost (continued)

After their initial recognition, the financial assets of this category are valued at amortized cost, using the effective interest rate method, minus any credit loss provision. The amortized cost is calculated considering any discount or premium incurred in the acquisition and professional fees that constitute an integral part of the effective interest rate. The amortization of the effective interest rate is included in the item "interest and similar income" of the statement of income. The effective interest rate is the rate that discounts the future estimated cash payments or collections throughout the expected useful life of the financial asset using the gross carrying amount.

Financial assets at amortized cost include direct credits that are recorded when the disbursement of the funds in favor of the clients is carried out, and indirect (contingent) credits that are recorded when the documents that support said credit facilities are issued.

Furthermore, the Bank considers as refinanced or restructured those credits that, due to difficulties in payment on the part of the debtor, change their payment schedule.

The impairment loss is calculated using the expected credit loss approach, and recognized in the statement of income in the item "(Provision) reversal for expected credit losses on securities" for investments and in the item provision for expected credit losses.

The balance of the financial assets, measured at amortized cost, is presented net of the provision for credit losses in the statement of financial position.

The accounting treatment of repurchase and reverse repurchase agreements and securities lending and borrowing is explained in section of "Financing liabilities" of the Note 2.

2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

SPPI Test (continued)

(ii) Financial assets at fair value through other comprehensive income
A financial asset is classified and measured at fair value through other comprehensive income if: a) the financial asset is maintained within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and b) the contractual conditions give rise, on specified dates, to cash flows that are solely payments of principal and interest.

The financial assets that the Bank maintains in this category are: a) investments in debt instruments, irrevocably designated at initial recognition.

Investments in debt instruments
After their initial recognition, investments in debt instruments are measured at fair value, recording the unrealized gains and losses in the statement of comprehensive income, net of their corresponding income tax and non-controlling interest, until the investment is sold; upon which the accumulated profit or loss is recognized in the item "Net gain on securities" of the statement of income.

Interest is recognized in the statement of income in the item "Interest and similar income" and it is reported as interest income using the effective interest rate method.

When a debt instrument is designated in a fair value hedging relationship, any change in the fair value due to changes in the hedged risk is recognized in the item "Interest and dividend income" of the statement of income.

The gains or losses due to exchange differences related to the amortized cost of the debt instrument are recognized in the statement of income, and those related to the difference between the amortized cost and the fair value are recognized as part of the unrealized gain or loss in the statement of comprehensive income.

The estimated fair value of the investments in debt instruments is mainly determined based on quotations or, in their absence, based on the discounted cash flows using market rates in accordance with the credit quality and the maturity of the investment.

2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

(ii) Financial assets at fair value through other comprehensive income (continued)
Investments in debt instruments (continued)
The impairment loss of investments in debt instruments is calculated using the expected loss approach and is recognized in the statement of comprehensive income, charged to the item "(Provision) reversal for expected credit losses on securities" of the statement of income; in this sense, it does not reduce the carrying amount of the financial asset in the statement of financial position, which is maintained at fair value. The impairment loss recognized in the statement of comprehensive income is reclassified to the statement of income when the debt instrument is derecognized.

(iii) Financial assets at fair value through profit or loss

Financial assets must be classified and measured at fair value through profit or loss, unless they are classified and measured "At amortized cost" or "At fair value through other comprehensive income".

The financial assets that the Bank maintains in this category are: a) Investments in debt instruments, b) investments in equity instruments for trading purposes, c) financial assets designated at fair value through profit or loss from their initial recognition, and d) derivative financial instruments for trading purposes. (see Note 2 derivate financial instrument).

Debt instruments
There instruments are classified in this category since: a) they are maintained for trading purposes, or b) their cash flows are not solely payments of principal and interest.

After their initial recognition they are measured at fair value, recording the changes in the item "Net gain on securities" of the statement of income. The interest earned is accrued in the item "Interest and similar income" of the statement of income.

Equity instruments for trading purposes
Equity instruments are classified and measured at fair value through profit or loss, unless an irrevocable choice is made, at the time of initial recognition, to designate them at fair value through other comprehensive income.

After their initial recognition, they are measured at fair value, recording the changes in the item "Net gains on securities" of the statement of income. The profit from dividends is recorded in the statement of income in the item "interest and similar income" when the right to payment has been recognized.

2. Summary of Significant Accounting Policies (Continued)

Financial Assets (continued)

(iii) Financial assets at fair value through profit or loss (continued)

Financial assets designated at fair value through profit or loss from initial recognition
Upon initial recognition, Management can irrevocably designate financial assets as measured at fair value through profit or loss, if doing so eliminates or significantly reduces an incongruence of measurement or recognition that would otherwise arise from the measurement of the assets or liabilities or from the recognition of the profit and losses thereof on different bases.

After initial recognition they are measured at fair value, recording the changes in the item "Net gain (loss) on securities designated at fair value through profit or loss" of the statement of income.

Financial Liabilities
At January 1, 2018, the Bank classified the financial liabilities upon initial recognition as measured at amortized cost, except in the case of the financial liabilities at fair value through profit or loss. These liabilities include the derivatives measured at fair value.

The interest incurred is accrued in the item "Interest and similar income" of the statement of income.

Furthermore, upon initial recognition, Management can irrevocably designate financial liabilities as measured at fair value through profit or loss when one of the following criteria is complied with:

- An incongruence in the measurement is eliminated or significantly reduced, which would otherwise arise from using different criteria to measure assets or liabilities; or
- They are part of a group of financial liabilities, which are managed and their yield is evaluated based on fair value, according to a documented investment strategy or risk management; or
- The financial liability contains one or more embedded derivatives that otherwise significantly modify the required cash flows.

2. Summary of Significant Accounting Policies (Continued)

Accounting policies applicable until December 31, 2017.

Financial Assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale and Held to maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Those categories are used to determine how a particular financial asset is recognized and measured in the financial statements.

Financial assets at fair value through profit or loss
This category has two subcategories:

- Designated upon initial recognition. The first includes any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss.

- Held for trading. The second category includes financial assets that are held for trading. All derivatives (except those designated hedging instruments) and financial assets acquired or held for the purpose of selling in the short-term or for which there is a recent pattern of short-term profit taking are held for trading.

Available-for-sale financial assets (AFS) are any non-derivative financial assets designated on initial recognition as available for sale. AFS assets are measured at fair value in the statement of financial position. Fair value changes on AFS assets are recognized directly in equity, through the statement of comprehensive income, except for interest on AFS assets (which is recognized in income on an effective interest method), impairment losses, and (for interest-bearing AFS debt instruments) foreign exchange gains or losses. The cumulative gain or loss that was recognized in equity is recognized in profit or loss when an available-for-sale financial asset is derecognized.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, originated or acquired, that are not quoted in an active market, not held for trading, and not designated on initial recognition as assets at fair value through profit or loss or as available for sale. Loans and receivables are measured and reported at the principal amount outstanding, net for credit losses, unearned income and deferred loan fees. Interest income is recognized over the term of the loan using the effective interest method.

2. Summary of Significant Accounting Policies (Continued)

Accounting policies applicable until December 31, 2017.

Financial Assets (continued)

Loans and receivables (continued)
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities and valuables, letters of credit/ guarantees. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's monthly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are measured at amortized cost. If an entity sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated, all of its other Held-to-maturity investments must be reclassified as available-for-sale for the current and next two financial reporting years.

Financial Liabilities

The Bank recognizes two classes of financial liabilities:

- Financial liabilities at fair value through profit or loss.
- Other financial liabilities measured at amortized cost using the effective interest rate method.

Initial Recognition and Measurement
The Bank uses a classification of financial asset or a financial liability depending on the purposes for which they were acquired and their characteristics. All financial assets or liabilities are recorded at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue of the financial assets or liabilities.

Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of income.

2. Summary of Significant Accounting Policies (Continued)

Initial Recognition and Measurement (continued)
A regular way purchase or sale of financial assets and liabilities is recognized and derecognized using either trade date or settlement date accounting. The Bank has adopted the method of trade accounting, i.e., the date that the Bank commits to purchase or sell, to recognize its financial assets and liabilities; this method has been applied consistently for all purchases and sales of financial assets and liabilities that belong to the same category of financial asset and liabilities. Receivable and payable for unsettled transactions are recognized in other assets and other liabilities, respectively.

Financial assets and all financial liabilities have been recognized on the statement of financial position, including all derivatives as described in 'Derivative financial instruments' section.

Subsequently, the Bank measures their financial assets and liabilities (including derivatives) at fair value, with the following exceptions: loans and receivables, Held to maturity investments, and non-derivative financial liabilities, which have been measured at amortized cost using the effective interest rate method.

Financial assets and liabilities that are designated as a hedged item or hedging instrument are subject to measurement under the hedge accounting requirements.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For its available for sale financial assets the Bank uses quoted market prices in an active market or dealer price, which are the best evidence of fair value, where they exist, to measure the financial instrument.

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models. The fair value of investment funds are determined by reference to the net asset values of the funds as provided by respective administrators of such funds the net asset value review in order to determine the reported balance is appropriate or it may be necessary to make adjustments.

After initial measurement, available for sale financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income and credited in the available for sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the statement of income. Interest earned whilst holding available for sale financial assets is reported as interest income using the effective interest rate method.

2. Summary of Significant Accounting Policies (Continued)

Initial Recognition and Measurement (continued)
Amortized cost is calculated using the effective interest rate method (EIR). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

The Bank evaluates whether the ability and intention to sell an available for sale financial assets in the near term is still appropriate. When, in rare circumstances, the Bank is unable to trade these financial assets due to inactive markets, the Bank may elect to reclassify these financial assets if the Management has the ability and intention to hold the assets for foreseeable future or until maturity.

The fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of income.

Derecognition
Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of income as gains and losses from investment securities.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Bank assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the Bank of financial assets that can be reliably estimated.

2. Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (continued)

Accounting policies applicable from January 1, 2018
As of January 1, 2018, the Bank applies a three-stage approach to measure the provision for credit loss, using an impairment model based on the expected credit losses as established in IFRS 9, for the following categories:

- Financial assets at amortized cost,
- Debt instruments classified as investments at fair value through other comprehensive income, and
- Indirect loans that are presented in off-balance accounts.

The financial assets classified or designated at fair value through profit or loss and the equity instruments designated at fair value through other comprehensive income, are not subject to impairment evaluation.

Financial assets migrate through three stages according to the change in the credit risk from the initial recognition.

Impairment model of expected credit losses
The calculations of credit losses are products of models with a series of underlying assumptions with regard to the choice of the variable inputs and their interdependencies. The impairment model for expected credit loss reflects the present value of all the cash deficit events related to the events of default, whether (i) during the following twelve months or (ii) during the expected useful life of a financial instrument depending on the impairment of the credit from the beginning. The expected credit loss reflects an unbiased result weighted by probability that considers a range of multiple outcomes based on reasonable and supportable forecasts.

The provisions for credit losses will be measured on each reporting date following a three-stage model of expected credit losses based on the degree of credit impairment from its origin:

- Stage 1: Financial assets whose credit risk has not increased significantly since its initial recognition, a reserve will be recognized for losses equivalent to the credit losses expected to occur from defaults in the following 12 months. For those instruments with a maturity less than 12 months, a probability of default corresponding to the remaining term until maturity is used.

2. Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (continued)

Accounting policies applicable from January 1, 2018 (continued)

Impairment model of expected credit losses (continued)

- Stage 2: Financial assets that have presented a significant increase in credit risk compared with initial recognition, but are not considered impaired, a reserve will be recognized for losses equivalent to the credit losses expected to occur during the remaining life of the asset.

- Stage 3: Financial assets with evidence of impairment on the reporting date, a reserve will be recognized for losses equivalent to the expected credit losses during the entire life of the asset.

The interest income will be recognized based on the carrying amount of the asset, net of the loss reserve.

Measurement of the expected loss
The measurement of the expected credit loss is mainly based on the product of probability of default (PD), loss given default (LGD), and exposure at default (EAD), discounted at the reporting date and considering the expected macroeconomic effects and all in accordance with the new regulation.

The details of these statistical parameters are the following:

- PD: is an estimate of the probability of default in a determined time horizon. A default can only occur at a determined moment during the remaining estimated life, if the provision has not been previously derecognized and it is still in the financial assets portfolio.

- LGD: is an estimate of the loss produced in the case a predetermined value is produced at a given time. It is based on the difference between the contractual cash flows owed and those that the lender would expect to receive, even after the liquidation of any guarantee. Generally, it is expressed as a percentage of the EAD.

- EAD: is an estimate of the exposure on a future default date, which considers the changes expected in the exposure after the reporting date, including the reimbursements of principal and interest, whether programmed by contract or otherwise, and the interest accrued due to default payments.

2. Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (continued)

Accounting policies applicable from January 1, 2018 (continued)

Measurement of the expected loss (continued)
The fundamental difference between the credit loss considered as Stage 1 and Stage 2 is the PD horizon. The estimates of Stage 1 use a 12-month horizon, while those situated in Stage 2 use an expected loss calculated with the remaining term of the asset and considers the effect of the significant increase in credit risk. Finally, Stage 3 will estimate the expected loss based on the best estimate ("ELBE"), according to the situation of the collection process of each asset.

Changes from one stage to another
The classification of an instrument as stage 1 or stage 2 depends on the concept of "significant increase in credit risk" on the reporting date compared with the origination date; in this sense, the definition used considers the following criteria:

- An account is classified in stage 2 if it has more than 30 days in arrears.

- Risk thresholds have been established based on the internal models and based on relative difference thresholds (by portfolio and risk level) in which the instrument was originated.

- The follow-up systems, alerts and monitoring of risk portfolios are integrated, as established by the current risk policy.

Additionally, all the accounts that are classified as default on the reporting date are considered as stage 3. The significant risk increase evaluations from their initial recognition and of credit impairment are carried out independently on each reporting date. The assets can move in both directions, from one stage to another.

Prospective information
The measurement of expected credit losses for each stage and the evaluation of significant increases in credit risk must consider information regarding previous events and current conditions, as well as the projections of future events and economic conditions. The estimate of the risk parameters (PD, LGD, EAD), used in the calculation of the provision in stages 1 and 2, included macroeconomic variables that differ between portfolios. These projections have a 3-year period and, additionally, a long-term projection.

The estimate of expected losses for stages 1, 2 and 3 will be a weighted estimate that considers three future macroeconomic scenarios. The base, optimist and pessimist scenarios are based on macroeconomic projections provided by the internal team of economic studies and approved by Senior Management. This same team also provides the probabilities of occurrence of each scenario. It should be stated, that the design of the scenario is adjusted at least once a year, with the possibility of a greater frequency if required by the surrounding conditions.

2. Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (continued)

Accounting policies applicable from January 1, 2018 (continued)

Macroeconomic factors
In its models, the Bank bases itself on a wide variety of prospective information such as economic inputs, including: the growth of the gross domestic product (GDP), unemployment rates, the base rates on markets or regulations, among others. It is possible that the inputs and models used to calculate the expected credit losses do not always capture all the market characteristics on the date of the financial statements. To reflect this, qualitative adjustments or overlays such as temporary adjustments can be carried out using the opinion of experts.

Expected life
For the instruments in stages 2 or 3, the reserves for losses will cover the lifetime expected credit losses of the instrument. For the majority of the instruments, the expected life is limited to the remaining term of the product, adjusted by expected advance payments. In the case of revolving products, an analysis was carried out in order to determine the expected life period.

Presentation of allowance for loan losses in the statement of financial position

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through other comprehensive income: it does not recognize any provision in the statement of financial position because the carrying amount of these assets is their fair value; however, the expected credit loss is presented in other comprehensive income;
- Indirect loans: the credit loss provision is presented in the item “Other liabilities” of the statement of financial position.

Definition of default
The portfolio classified in stage 3 will include those instruments that meet the definition of default.

An asset is considered to be in default when it has any of the following characteristics:

- Clients that have a default of more than 90 days in any of their obligations.
- Clients who present at least one instrument written-off.
- Clients in special states of restructuring law or business reorganization and insolvency agreements.
- Customers on the watch list (Special Customer Administration) with high risk level.
- Customers classified in the credit impaired category according to the internal rating models.

2. Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (continued)

Definition of default (continued)

Accounting policies applicable until to December 31, 2017

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost.

'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income - is removed from other comprehensive income and recognized in the statement of income.

Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in the statement of comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, the duration, and the extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of financial margin.

If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

2. Summary of Significant Accounting Policies (Continued)

Impairment of Financial Assets (continued)

The Bank maintains an allowance for credit losses, which consists of specific and collective allowances as follows:

Specific Allowances
Specific allowances are determined on an exposure and reflect the associated estimated credit loss. The specific allowance for credit loss is computed as the difference between book value and the present value of the expected future cash flows from the loan. The effective rate of return on the loan is used for discounting the cash flows. However, when foreclosure of a collateral-dependent loan is probable, the Bank measures impairment based on the fair value of the collateral. The Bank estimated costs to sell, on a discounted basis, in the measurement of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the measurement of an impaired loan is less than the recorded investment in the loan, then the Bank recognizes impairment by creating an allowance with a corresponding charge to provision for credit losses.

Collective Allowances
The allowance for credit losses attributed to the remaining portfolio is established through various analyses that estimate the incurred loss at the statement of financial position date inherent in the lending and off-balance sheet credit related arrangements portfolios. These analyses consider historical default rates and loss severities, internal risk ratings. Management also considers overall portfolio indicators including trends in internally risk rated exposures, cash-collateralized loans, historical and forecasted write-offs, the current business strategy and credit process, including limit setting and compliance, credit approvals, loan underwriting criteria and loan workout procedures.

Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral, which can be called upon if the debtor is in default under the terms of the agreement, has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated loss increases or decreases because of an event occurring after the allowance was recognized, the previously recognized loss is increased or reduced by adjusting the loan loss provision in the statement of income. If a write-off is later recovered, the recovery is credited against to allowance for credit losses in the statement of financial position.

Other considerations and treatment for loans, guarantees and loan losses are fully described in Note 6.

2. Summary of Significant Accounting Policies (Continued)

Premises and Equipment
Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the useful life of the assets as follows:

Furnitures and office equipment	2 to 3 years
Vehicles	5 years
Leasehold improvement	10 years

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recover.

Financing and Borrowings Funds
After initial recognition, interest bearing financing and borrowings are subsequently measured at amortized cost using the effective interest rate method. Borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and others cost that the Bank incurs in connection with the borrowing of funds.

Repurchase and reverse repurchase agreements and securities lending and borrowing
Securities sold under repurchase agreements at a specified future date are not derecognized from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The cash received is recorded as an asset in "Cash and cash equivalent" and the corresponding obligation to return it is recognized too, including accrued interest, as a liability in "Financing and Borrowings" as repurchase agreements and securities lending, reflecting the transaction's economic substance as a loan to the Bank.

The difference between the sale and repurchase price was treated as interest expense and accrued over the life of the agreement using the effective interest rate and was recognized in "Interest expenses" of the statement of income.

Conversely, securities purchased under reverse repurchase agreements at a specified future date are not recognized in the statement of financial position. The cash granted is recorded as an outgoing asset in "Cash and cash equivalent" account and the corresponding right to payment, including accrued interest, is recorded in "Cash collateral from repurchase agreements and securities borrowing", reflecting the transaction's economic substance as a loan granted by the Bank. The difference between the purchase and resale price is recorded in "Interest and similar income" of the statement of income and is accrued over the life of the agreement using the effective interest rate method.

2. Summary of Significant Accounting Policies (Continued)

Financing and Borrowings Funds (continued)

Repurchase and reverse repurchase agreements and securities lending and borrowing (continued)
If securities purchased under reverse repurchase agreement are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale in the statement of financial position as "Financial liabilities at fair value through profit or loss" and measured at fair value, with any gains or losses included in the statement of income as "Net gain on securities".

Securities lending and borrowing transactions are usually collateralized by securities. The transfer of the securities to counterparties is only reflected in the statement of financial position if the risks and rewards of ownership are also transferred.

Derivative Financial Instruments

The Bank makes use of derivative financial instruments, such as options, short selling, futures, forward foreign currency contracts, interest rate swaps and credit default swaps to manage exposure to interest rate, foreign currency and credit risk, including those arising from forecast transactions. In order to manage particular risks, the Bank applies a different accounting basis taking into account the use of derivative financial instruments as trading purposes.

Derivative financial instrument operations are recognized initially at fair value. The fair value of derivative financial instruments is calculated by reference to current interest and exchange rates.

The changes in fair value are recorded as assets when the fair value is positive and as liabilities when it is negative. The gain or loss related to changes in fair value is recorded in the statement of income.

Interest and Similar Income and Expense

Interest income and expense are recognized in the statement of income for all interest-bearing instruments on an accrual basis applying the effective yield method (Effective Interest Rate EIR) to the actual purchase price. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate to the net carrying amount of the financial asset or liability. Interest income includes coupons earned on fixed income investment and accredited or discount on debt instruments.

When a loan becomes of doubtful collection, it is written down to recoverable amount and interest income is thereafter recognized at the rate of interest which had been used to discount the future cash flows for the purpose of determining the recoverable amount.

2. Summary of Significant Accounting Policies (Continued)

Revenue from Contracts with Customers
Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognizes revenue when it transfers control over a service to a customer.

A detailed information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies are described as follows:

Asset management services

The Bank provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer’s account balance on a monthly basis. In addition, the Bank charges a nonrefundable up-front fee when investments in structured products and third party funds are realized.

Revenue from asset management services is recognized over time as the services are provided. Non-refundable up-front fees give rise to material rights for future services and are recognized as revenue over the period for which a customer is expected to continue receiving asset management services.

Retail and corporate banking services

The Bank provides banking services to retail and corporate customers, including account Management, occasional overdraft facilities, foreign currency transactions, debit card, funds transfer and servicing fees. Fees for ongoing account Management are charged to the customer’s account on a monthly basis. The Bank reviewed and sets the rates separately for retail and corporate banking customers on an annual basis. Transaction-based fees for funds transfer, foreign currency transactions and overdrafts are charged to the customer’s account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.

Revenue from account service and servicing fees is recognized over time as the services are provided.

Revenue related to transactions is recognized at the point in time when the transaction takes place.

Breakdown of incomes proceeds from contracts with customers is presented in Note 14.

2. Summary of Significant Accounting Policies (Continued)

Dividends
The Bank recognizes a liability to make cash distributions to equity holder when the distribution is authorized and the distribution is no longer at the discretion of the Bank. According to Cayman Island regulation the Bank must first to request the authorization of Cayman Island Monetary Authority (CIMA) and then the approval of the shareholders general meeting. When it is approved by the shareholders a corresponding amount is recognized directly in equity.

Fiduciary Activities
Securities and valuables (other than cash and deposits held with the Bank) held in trust, custody, agency or fiduciary capacity for customer are not included in the statement of financial position because the Bank is not the beneficiary of these assets.

Commissions received from fiduciary activities are included in fee and commissions income, and is recognized under the accrual method.

Income Taxes
The Bank operations are tax exempted in both the Cayman Islands and the Republic of Panama.

Contingencies
The Bank makes estimates on legal contingencies arising out of existing processes where the Bank acted as claimant or defendant. The provision will be recorded only if can be demonstrate with a high probability that an event of loss or gain can occur.

3. Financial Risk Management

The Bank's operations are exposed to a wide variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Bank's financial performance.

Operational Risk
Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage these risks.

Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Amount expressed in thousands of US$ dollars)

3. Financial Risk Management (Continued)

Credit Risk

The Bank seeks to minimize and control its risk exposure by establishing a variety of separate but complementary financial, credit, operational and legal reporting schemes. The Bank's Executive Committee, duly authorized by the Board of Directors, determines the type of business in which the Bank engages and also approves guidelines for accepting customers, outlines the terms on which customer business is conducted and establishes the parameters for the risks that the Bank is willing to accept.

The Bank takes on exposure to credit risk, the risk that a counterparty will be unable to pay all amounts in full when due.

The Bank structures the credit risk levels it accepts by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, or geographical segment. Such risks are monitored on a revolving basis and subject to periodic review. Limits on levels of credit by product and country are reviewed and approved quarterly by the Board of Directors.

Financial assets which potentially expose the Bank to concentrations of credit risk consist primarily of cash and cash equivalents, interest-bearing deposits with banks, financial securities, loans and other assets. Cash and cash equivalents and interest-bearing deposits with banks are placed either with related parties or reputable financial institutions. An analysis of the Bank's financial securities and loans according to its credit risk rating is provided in Note 6.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by adjusting lending limits as appropriate. Exposure to credit risk is also managed in part by obtaining collateral, corporate and personal guarantees.

	Stage 1	Stage 2	Stage 3	2018
Investments				
Fair value through comprehensive income	659,272	16,712	-	675,984
Investment at amortized cost	90,747	-	-	90,747
	750,019	16,712	-	766,731
Loans				
Commercial loans	429,562	-	-	429,562
Consumer loans	312,588	132	-	312,720
	742,150	132	-	742,282

(Amount expressed in thousands of US$ dollars)

3. Financial Risk Management (Continued)

Credit Risk (continued)

Credit Related Commitments
The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and stand-by letters of credit, which represent irrevocable assurances that the Bank will execute payments in the event that a customer cannot meet its obligations to third parties, carry the same risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

The Bank's credit policies and procedures to approve credit commitments, guarantees and commitments to purchase and sell securities are the same as those applicable to extension of credits which are on statement of financial position and take into account their collateral and other security, if any.

At December 31, the geographic concentration of significant assets (cash and cash equivalents, interest-bearing deposits with banks and risk portfolio) and liabilities (deposits, purchased funds and other borrowed funds) is as follows:

	2018	
	Assets	**Liabilities**
Latin America and the Caribbean	1,067,505	1,029,889
United States of America	529,041	1,440
Europe and Asia	150,762	45,889
Cayman Islands	5,194	406,709
Other countries	19,206	53,076
	1,771,708	1,537,003

	2017	
	Assets	**Liabilities**
Latin America and the Caribbean	1,137,721	1,535,255
United States of America	651,317	1,228
Europe and Asia	201,877	72,401
Cayman Islands	5,151	125,104
Other countries	24,352	35,089
	2,020,418	1,769,077

(Amount expressed in thousands of US$ dollars)

3. Financial Risk Management (Continued)

Credit Risk (continued)

Deposits with banks
Analysis by credit quality of amounts cash equivalent outstanding at December 31, are as follows:

	2018	2017
AA+ to AA-	502	2,309
A+ to A-	49,966	17,962
BBB+ to BBB-	81,929	163,755
	132,397	184,026

Market Risk
The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flow of financial instruments, will fluctuate because of changes in market prices. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credits spreads, foreign exchange rates and equity prices.

The Bank separates exposures to market risk in two groups: (i) those that arise from value fluctuation of trading portfolios recognized at fair value through profit or loss due to movements of market rates or prices (Trading Book) and (ii) those that arise from changes in the structural positions of non-trading portfolios due to movements of the interest rates, prices and foreign exchange ratios (Banking Book) and that are recorded at amortized cost and at fair value with changes in other comprehensive income, this is due to movements in interest rates, prices and currency exchange rates.

The risks that trading portfolios face are managed through Value at Risk (VaR) historical simulation techniques; while non-trading portfolios (Banking Book) are monitored using rate sensitivity metrics, which are a part of Asset and Liability Management (ALM).

a) *Trading Book*
The trading book is characterized for having liquid positions in stocks, bonds, foreign currencies and derivatives, arising from market-making transactions where the Group acts as principal with the customers or with the market. This portfolio includes investments and derivatives classified by Management as held for trading.

(Amount expressed in thousands of US$ dollars)

3. Financial Risk Management (Continued)

Market Risk (continued)

a) Trading Book (continued)

(i) Value at Risk (VaR)

The Bank applies the VaR approach to its trading portfolio to estimate the market risk of the main positions held and the maximum losses that are expected.

Daily calculation of VaR is a statistically-based estimate of the maximum potential loss on the current portfolio from adverse market movements.

VaR expresses the “maximum” amount the Bank might lose in one day, but only to a certain level of confidence (99 percent). There is therefore a specified statistical probability (1 percent) that actual loss could be greater than the one-day VaR estimate. The Bank applies the historical simulation method. The assessment of portfolio movements has been based on historical one-year data and market risk factors, which are composed by market curves and equity prices.

The Bank considers that the market risk factors, incorporated in their VaR model, are adequate to measure the market risk to which its trading portfolio is exposed.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements. Losses exceeding the VaR figure may occur, on average under normal market conditions, not more than once every hundred days. VaR limits have been established to control and keep track of all the risks taken. These risks arise from the size of the positions and/or the volatility of the risk factors embedded in each financial instrument. Regular reports are prepared for the Risk Committee.

As of December 31, 2018 and 2017, the Bank’s VaR by risk type is as follows:

	2018	2017
Interest rate risk	293,674	176,949
Price risk	181,475	108,547
VaR	475,149	285,496

The VaR results as of December 31, 2018 show a greater interest rate risk due to the increased of the exposure in the Fixed Income portfolio. The VaR remains contained within the limits.

3. Financial Risk Management (Continued)

Market Risk (continued)

b) *Banking Book*
Non-trading portfolios which comprise the Banking Book are exposed to different risks, given that they are sensitive to market rate movements, which could bring about a deterioration in the value of assets compared to liabilities and hence to a reduction of their net worth.

Interest Rate Risk
The Bank is exposed to cash flow and fair value interest rate risk in the course of major operations. To manage these exposures the Bank has established a variety of separate but complementary financial, investment, operational and credit reporting schemes to determine the current position on financial assets and liabilities and how it's impacted by a change in the interest rate risk.

The price risk factor that mainly affects the value of the Bank investment portfolio is interest rates. Interest Rate Risk Management is an integral component of the Asset/Liability Management (ALM) methodology in use by the Bank, which models and measures the effect that interest rate risk has over the Bank's income in the short-term.

The major Bank's investment portfolio is managed through a long-term investment (buy and hold) strategy and not as of a proprietary trading book, hence, its exposure to market price risk in the short-term is not considered to be relevant.

The Bank takes on exposure to the effects of fluctuations at the prevailing level of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movement materializes.

(Amount expressed in thousands of US$ dollars)

3. Financial Risk Management (Continued)

Interest Rate Risk (continued)

The table below summarizes the Bank's exposures to interest rate risk. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	2018						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	132,397	-	-	-	-	21	132,418
Financial assets	24,257	63,727	85,881	448,075	275,125	-	897,065
Loans	102,252	143,829	436,237	59,907	-	-	742,225
Other assets	-	-	-	-	-	83,974	83,974
	258,906	207,556	522,118	507,982	275,125	83,995	1,855,682
Liabilities							
Deposits							
Non-interest bearing	-	-	-	-	-	407,126	407,126
Interest bearing	199,927	102,908	308,747	275,586	4,744	-	891,912
Financing and borrowings funds	50,608	100,490	86,867	-	-	-	237,965
Other liabilities	-	-	-	-	-	86,607	86,607
	250,535	203,398	395,614	275,586	4,744	493,733	1,623,610
Total interest sensitivity gap	8,371	4,158	126,504	232,396	270,381		

	2017						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	184,026	-	-	-	-	5	184,031
Financial assets	32,307	33,782	76,113	517,654	317,700	33,428	1,010,984
Loans	127,161	86,232	542,852	69,158	-	-	825,403
Other assets	-	-	-	-	-	31,954	31,954
	343,494	120,014	618,965	586,812	317,700	65,387	2,052,372
Liabilities							
Deposits							
Non-interest bearing	-	-	-	-	-	546,946	546,946
Interest bearing	341,120	87,417	549,366	97,294	-	-	1,075,197
Financing and borrowings funds	146,934	-	-	-	-	-	146,934
Other liabilities	-	-	-	-	-	13,597	13,597
	488,054	87,417	549,366	97,294	-	560,543	1,782,674
Total interest sensitivity gap	(144,560)	32,597	69,599	489,518	317,700		

(Amount expressed in thousands of US$ dollars)

3. Financial Risk Management (Continued)

Interest Rate Risk (continued)

The sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of income and statement of comprehensive income were as follows:

Financial Margin Sensitivity	2018 Sensitivity Increase 100 bps	2018 Sensitivity Decrease 100 bps	2017 Sensitivity Increase 100 bps	2017 Sensitivity Decrease 100 bps
Assets				
Cash equivalent	375	(99)	1,285	(1,285)
Loans	3,784	(3,775)	3,883	(3,858)
Financial assets	845	(797)	675	(620)
	5,004	(4,671)	5,843	(5,763)
Liability				
Deposits	7,417	(5,267)	8,562	(5,738)
Total interest sensitivity gap	(2,413)	(596)	(2,719)	25
Other Comprehensive Income				
Assets				
Financial assets	(26,073)	26,067	(33,039)	33,028

The table below summarizes the weighted average interest rates for assets and liabilities as of December 31:

	2018 % End of year	2018 % During the year	2017 % End of year	2017 % During the year
Assets				
Interest-bearing deposits with banks	1.01	1.20	0.85	0.62
Financial assets	2.81	3.66	3.80	3.82
Loans	5.49	5.27	5.09	5.19
Liabilities				
Deposits	2.23	2.47	1.90	1.44
Financing and borrowing funds	3.76	1.89	2.35	2.72

(Amount expressed in thousands of US$ dollars)

3. Financial Risk Management (Continued)

Price Risk

As of December 31, 2018, investments in equity securities (including funds) have been reclassified as at fair value through profit or loss and considering the mark to market valuation process do not comprise investments securities for interest rate and price sensitivity risk calculation.

As December 31, 2017, the Bank's exposure to equity securities price risk arises from investments held by the Bank and classified in the financial position either as available for sale (Note 6). To manage its price risk arising from investments in equity securities, the bank diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Bank. The sensitivity to a reasonable possible change in price rates, the analysis is based on the assumption that the equity indexes had increased or decrease by 2% with all other variables held constant, of the Bank's comprehensive income were demonstrate as follows:

		Impact Profit and Loss		Impact Comprehensive Income	
	%	**2018**	**2017**	**2018**	**2017**
Hedge fund and private equity – increase	2%	720	-	-	437
Hedge fund and private equity – decrease	(2%)	(720)	-	-	(437)

The equities, private equity and mutual funds by geographic concentration at December 31 are detailed as follows:

	2018	**2017**
At fair value through profit or loss (2017: Held for trading):		
United States of America	23,200	11,266
Europe	11,729	242
Caribbean	4,978	-
South America	2,969	-
Japan	564	93
Oceania	178	38
	43,618	11,639
Available-for-sale (2017):		
United States of America and Canada	-	15,892
Caribbean	-	4,758
South America	-	1,215
	-	21,865

(Amount expressed in thousands of US$ dollars)

3. Financial Risk Management (Continued)

Price Risk (continued)

The private equity and hedge fund by industry at December 31 are detailed as follows:

	2018	2017
At fair value through profit or loss (2017: Held for trading):		
Publicly traded securities	2,150	5,876
Financial	24,632	5,705
Pharmaceutical	16,836	58
	43,618	11,639
Available-for-sale (2017)		
Pharmaceutical	-	15,750
Financial	-	6,115
	-	21,865

The majority of equity instruments are actively traded on public stock exchanges with readily available active prices on a regular basis. Such instruments are classified as Level 1.

Units held in funds and private equity are measured based on their published net asset value (NAV), taking into account redemption and/or other restrictions. Such instruments are generally Level 3. Equity instruments in non-listed entities, included investment in private equity funds, are initially recognized at transaction price and re-measured in a regular basis as the information is available and valued.

The Hedge Funds instruments have monthly subscription, quarterly redemption and lock up period of one (1) year. The main income cash flows are provided by a wide range of securities portfolio.

The private equities have closed end structure and the Bank has invested in units at nominal value and at current NAV at the time of investment. The main strategies involve a wide range of investments such acquisition of intellectual properties in pharmaceutical industry and diversification of the portfolio on several high quality assets taking into account such factors as risk levels, product competition, terms and a number of other factors.

The valuation process to obtain the net asset value for those private equities is calculated on a quarterly or more frequent basis. The dividends, redemptions and return of capital are stablished in contractual basis or communicated by the administrator.

(Amount expressed in thousands of US$ dollars)

3. Financial Risk Management (Continued)

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Bank treasury maintains flexibility in funding by maintaining availability under committed credit lines. Management monitors rolling forecasts of the Bank's liquidity on the basis of expected cash flow.

The Bank is exposed to daily calls on available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Bank does not maintain cash resources to meet all of these needs, as experience with its specific customer base shows that a minimum level of reinvestment of maturing can be predicted with a high degree of certainty. As of December 31, 2018 and 2017, the Bank holds a substantial amount of securities which Management considers as secondary liquidity source.

The table below analyzes the Bank's assets and liabilities into relevant maturity groupings based on the time remaining from statement of financial position date to the contractual maturity date:

	2018					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	132,418	-	-	-	-	132,418
Financial assets	28,166	45,299	92,865	460,007	270,728	897,065
Loans	82,885	91,474	506,905	60,961	-	742,225
Other assets	43,333	29,849	6,475	4,317	-	83,974
	286,802	166,622	606,245	525,285	270,728	1,855,682
Liabilities						
Deposits						
Non-interest bearing	118,376	59,255	80,406	109,054	40,035	407,126
Interest bearing	199,927	102,908	308,747	275,586	4,744	891,912
Financing and borrowing funds	50,608	100,490	86,867	-	-	237,965
Other liabilities	41,121	41,557	3,929	-	-	86,607
	410,032	304,210	479,949	384,640	44,779	1,623,610
Net liquidity gap	(123,230)	(137,588)	126,296	140,645	225,949	232,072

(Amount expressed in thousands of US$ dollars)

3. Financial Risk Management (Continued)

Liquidity Risk (continued)

	2017					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	184,031	-	-	-	-	184,031
Financial assets	31,226	40,594	78,677	539,079	321,408	1,010,984
Loans	116,932	80,774	557,232	70,465	-	825,403
Other assets	18,749	1,224	2,787	924	-	23,684
	350,938	122,592	638,696	610,468	321,408	2,044,102
Liabilities						
Deposits						
Non-interest bearing	145,358	29,508	77,394	232,302	62,384	546,946
Interest bearing	341,120	87,417	549,366	97,294	-	1,075,197
Financing and borrowing funds	23,959	43,944	66,327	12,704	-	146,934
Other liabilities	8,777	964	2,912	595	-	13,248
	519,214	161,833	695,999	342,895	62,384	1,782,325
Net liquidity gap	(168,276)	(39,241)	(57,303)	267,573	259,024	261,777

The table below analyses the Bank´s financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows:

	2018					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Deposits						
Non-interest bearing	118,376	59,255	80,406	109,054	40,035	407,126
Interest bearing	200,049	103,207	313,885	287,143	4,744	909,028
Financial and borrowing funds	50,651	100,985	88,338	-	-	239,974
	369,076	263,447	482,629	396,197	44,479	1,556,128

	2017					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Deposits						
Non-interest bearing	546,946	-	-	-	-	546,946
Interest bearing	337,877	87,794	555,667	100,562	-	1,081,900
Financial and borrowing funds	23,996	44,097	66,920	12,853	-	147,866
	908,819	131,891	622,587	113,415	-	1,776,712

3. Financial Risk Management (Continued)

Liquidity Risk (continued)
The matching and controlled miss-matching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often for uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates. Liquidity required to support calls under guarantees and stand-by letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash needs, since many of these commitments will expire or terminate without actually being funded.

Capital Risk
The Bank monitors its capital adequacy using ratios based on industry best practices and the recommendations issued by the Basel Committee on Banking Regulations and Supervisory Practices. The capital adequacy ratio measures capital adequacy by comparing the Bank's eligible capital, net with its risk exposure in the statement of financial position assets, off-balance sheet commitments positions at a weighted amount including an additional scope about risk sensitive approaches to credit risk, market risk and operational risk capital requirements. These internal ratios are based on both an Earnings-at-Risk model and a Net Economic Value Sensitivity model, which are part of the Bank's ALM (Asset/Liability Management) methodology. These models yield an estimate of the potential loss that might occur if the Bank's statement of financial position structure remained unchanged during specific periods of time and market volatility affects its risk exposure.

The Bank is subject to regulatory capital requirements established by the Cayman Islands Monetary Authority ("CIMA"). Failure to meet minimum capital requirements can initiate certain actions by the regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines used by CIMA and prescribed under The Banks and Trust Companies Law (Revised) of the Cayman Islands, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by CIMA about components and risk weightings.

3. Financial Risk Management (Continued)

Capital Risk (continued)

The Cayman Island Monetary Authority (CIMA) had implemented the Basel II Framework, which describes a comprehensive measure and minimum standard for capital adequacy that seeks to improve on the existing Basel I rules by aligning regulatory capital requirements more closely to the underlying risks that banks face. The implementation of the Basel II accord, which consists of 3 'Pillars', go well beyond the mechanistic calculation of minimum capital levels set by Basel I, allowing Banks to use their own models to calculate regulatory capital while seeking to ensure that Banks establish a culture with risk management.

CIMA proposed to apply the Basel II Framework in two phases leveraging a practical measured approach. The first phase of the implementation was completed on December 31, 2011 and since then has been implemented in a consistent basis. It's comprised the following Pillar 1 approaches:

- Credit Risk - Standardized.
- Market Risk - Standardized.
- Operational Risk - Basic Indicator Approach and the Standardized Approach.

The Pillar 1 provides a methodology for determining minimum capital requirements similar to Basel I, under Basel I this calculation related only to credit risk, with a calculation for market risk, Basel II adds a further charge to allow for operational risk.

The approaches used by the Bank to calculate its capital requirements covers the credit risk and operational risk of the Bank's operations and the specific risks of open positions in currencies, debt, and equity securities included in the risk portfolio. Assets are weighted according to broad categories of notional credit risk, the credit risk weighting has been determined by the external credit ratings assigned to the borrower and the operational risk has been determined using the standardized approach method. The Capital Ratio is determined dividing eligible regulatory capital by total risk-weighted assets. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of capital. The Bank is required to maintain a minimum net worth of US$500 by CIMA regulations.

(Amount expressed in thousands of US$ dollars)

3. Financial Risk Management (Continued)

Capital Risk (continued)
The Bank's actual capital amount and its risk asset ratio, pursuant to CIMA reporting schedules as well as CIMA's minimum requirements, are presented in the following table:

	Base Amount	Risk Weighted Assets
Statement of financial position and off-balance sheet weighted		
Credit Risk		
Cash items	21	-
Claims on sovereigns	47,628	1,544
Claims on Non Central Government Public Sector Entities (PSEs)	16,958	9,749
Claims on Multilateral Development Banks (MDBs)	55	12
Claims on Banks and Security Firms	292,195	107,894
Claims on Corporates and Security Firms	1,004,805	613,620
Claims on retail portfolio	308,898	103,967
Claims secured on higher risk categories and other assets	185,608	184,633
Total statement of financial position items	1,856,168	1,021,419
Off-statement of financial position items	24,672	5,763
Counterparty credit risk	2,382	5
Securitizations	8,892	7,882
Total credit risk	1,892,114	1,035,069
Operational risk - standardized approach		132,045
Market risk		168,497
Total risk weighted assets		1,335,611
Capital Constituents		
Net Tier 1 and Net Tier 2 Capital		249,155
Capital Adequacy Ratio as of December 31, 2018		18.65%
Capital Adequacy Ratio as of December 31, 2017		18.28%
Minimum capital adequacy regulatory ratio		12%

3. Financial Risk Management (Continued)

Capital Risk (continued)
The Bank only applies the market risk approach for the trading investment position.

The second phase of the CIMA Basel II implementation will be considered for implementation after March 2013. It will include considering the implementation of advanced approaches, specifically Pillar 1 - Credit Risk - Advanced Approaches (IRB), Operations Risk - Advanced Measurement Approaches (AMA) and Market Risk - Internal Risk Management Models. However, until December 2018, the implementation of second phase remains pending.

Since the CIMA completed its evaluation on Pillar II – Supervisory Review Process of the Basel II Framework has issued Rules and Guidelines regarding Internal Capital Adequacy Assessment Process (ICAAP) which intended to ensure Banks have adequate capital to support all the risk in their business, and also to encourage to develop and use better risk management techniques in monitoring and managing their risk.

4. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be realized in a current transaction between parties at arm's length, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, should it exist.

The following summary presents the methodologies and assumptions used to estimate the fair value of the Bank's financial instruments:

- *Cash and cash equivalent, interest bearing deposits with banks, federal funds sold and overnight placements.* The fair values of these financial assets are considered to approximate their respective carrying values due to their short-term nature.

- *Financial assets and derivative, which includes Investments at fair value through profit or loss, at fair value through other comprehensive income (2017-investments held for trading, available-for-sale-securities) and financial derivatives designed as fair value through profit or loss:* The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at close of business of the statement of financial position date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models. The fair value of investment funds is determined by reference to the net asset values of the funds as provided by the respective administrators of such funds. (See Note 6).

(Amount expressed in thousands of US$ dollars)

4. Fair Value of Financial Instruments (Continued)

- *Loans.* The fair value of the loan portfolio approximates its carrying value due to either the short-term nature of loans and/or the fact that the loan portfolio is composed mainly of cash collateral loans. The fair value of those long-term fixed rate and variable rate loans are determined by the Bank using discounted cash flows method using a discount rate that reflect the market rate available for transaction with similar characteristic in amount, term and risk.

- *Deposit, financings and other borrowed funds.* The fair value of these financial liabilities approximates their respective carrying values due to either their short-term nature and/or the fact that their interest rates are comparable to those available for liabilities with similar terms and conditions.

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	132,418	132,418	184,031	184,031
Financial assets, excluding AC	806,431	806,431	908,560	908,560
Investment at amortized cost	90,633	89,747	102,424	104,701
Loans, net	742,226	742,208	825,403	825,361
Investment in subsidiary	6,075	6,075	5,890	5,890
Other assets	77,899	77,899	26,064	26,064
	1,855,682	1,854,778	2,052,372	2,054,607
Liabilities				
Deposits				
Non-interest bearing	407,126	407,126	546,946	546,946
Interest bearing	891,913	890,191	1,075,197	1,074,465
Financing and borrowing funds	237,965	237,965	146,934	146,934
Other liabilities	86,606	86,607	13,597	13,597
	1,623,610	1,621,889	1,782,674	1,781,942

The Bank establishes a hierarchy of valuation techniques based on whether the inputs to these valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Information other than the quoted prices included in Level 1 that is observable for the asset or liability, either directly (that is as prices) or indirectly (that is, derived from prices).
- Level 3 - Information of asset or liability that is not based on observable market data (unobservable support).

(Amount expressed in thousands of US$ dollars)

4. Fair Value of Financial Instruments (Continued)

The following table analyzes the fair value of financial instrument measured at fair value in books, by the level of fair value hierarchy in which have been classified:

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
At fair value through profit or loss				
Debt securities	59,531	25,859	1,439	86,829
Equity securities (including mutual funds)	18,684	-	24,934	43,618
Total Fair value through profit or loss	78,215	25,859	26,373	130,447
At fair value through other comprehensive income				
Debt securities	513,174	161,245	1,565	675,984
At amortized - Cost	70,183	20,450	-	90,633
Total financial assets	661,572	207,554	27,938	897,064
Derivatives fair value to profit or loss:				
Interest rate swaps	-	188	-	188
Forward	-	4	-	4
Futures	168	-	-	168
Credit default swaps	-	357	-	357
Total	168	549	-	717
Financial Liabilities				
Derivatives held for trading				
Forward foreign currency contract sale	-	3	-	3
Interest rate swaps	-	776	-	776
Futures	788	-	-	788
Credit default swaps	-	88	-	88
Total	788	867	-	1,655

In 2018, the Bank transferred fixed income bonds from Level 1 into Level 2 for the amount of US$27,714, due to less observable market data available for determination of valuation.

(Amount expressed in thousands of US$ dollars)

4. Fair Value of Financial Instruments (Continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial asset which are recorded at fair value:

	January 1, 2018	Total gain recorded in profit or loss	Total gains/ (losses) recorded in equity	Purchases	Sales	Transfers from Level 2 to Level 3	December 31, 2018
Financial Assets							
At fair value through profit or loss							
Debt securities	450	-	-	-	(450)	1,439	1,439
Equity securities (including mutual funds)	21,865	1,802	(16)	1,665	(382)	-	24,934
	22,315	1,802	(16)	1,665	(832)	1,439	26,373

	December 31, 2017	January 1, 2018	(losses) recorded in equity	Purchases	Sales	from Level 2 to Level 3	December 31, 2018
At fair value through other comprehensive income (available-for-sale)							
Debt securities	450	(450)	-	-	-	-	-
Equity securities (including mutual funds)	21,865	(21,865)	-	-	-	-	-
	22,315	(22,315)	-	-	-	-	-

	January 1, 2018	Total gain recorded in profit or loss	Total gains/ (losses) recorded in equity	Purchases	Sales	Transfers from Level 2 to Level 3	December 31, 2018
At fair value through other comprehensive income							
Debt securities	-	453	-	1,045	(578)	645	1,565
Equity securities (including mutual funds)	-	-	-	-	-	-	-
	-	453	-	1,045	(578)	645	1,565

(Amount expressed in thousands of US$ dollars)

4. Fair Value of Financial Instruments (Continued)

The portfolio available for sale has been reclassified at fair value for other comprehensive income, effective January 1, 2018. By transition from IAS 39 to IFRS 9.

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Derivatives held for trading				
Interest rate swaps	-	162	-	162
Futures	21	-	-	21
Credit default swaps	-	344	-	344
Total	21	506	-	527
Held for trading	49,621	-	-	49,621
Available-for-sale				
Debt securities	625,263	211,361	450	837,074
Equity securities (including mutual funds)	-	-	21,865	21,865
Total available-for-sale	625,263	211,361	22,315	858,939
Held to maturity	102,424	-	-	102,424
Total financial assets	777,329	211,867	22,315	1,011,511
Financial Liabilities				
Derivatives held for trading				
Forward foreign currency contract sale	-	39	-	39
Interest rate swaps	-	595	-	595
Futures	90	-	-	90
Credit default swaps	-	4	-	4
	90	638	-	728

In 2017, the Bank transferred fixed income bonds from Level 1 into Level 2 for the amount of US$110,733, because the fair value was determined using valuation techniques with observable market data.

(Amount expressed in thousands of US$ dollars)

4. Fair Value of Financial Instruments (Continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial asset which are recorded at fair value:

	January 1, 2017	Total gain recorded in profit or loss	Total gains/ (losses) recorded in equity	Purchases	Sales	Transfers from Level 2 to Level 3	December 31, 2017
Available-for-sale							
Debt securities	707	-	(257)	-	-	-	450
Equity securities (including mutual funds)	23,164	583	775	240	(2,897)	-	21,865
	23,871	583	518	240	(2,897)	-	22,315

The Level 1 category includes financial instruments that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Level 2 category are financial instruments that are measured based in observed markets factors. This category includes instruments valued using: quoted prices for similar instruments, either in active or less active markets and other valuation techniques (models) where all significant inputs are directly or indirectly observable based on market data.

The Level 3 investments are those that are measured using valuation techniques based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The Bank use consensus pricing from brokers, from industry publications and other industry materials that includes unobservable inputs (those inputs for which there is little or noncurrent observable data available). The fair value is estimated using alternative assumption as follow: considering a possible change on interest rate within a range between 75 - 100 basis points for corporate debts, for equity securities (including hedge funds) the fair value were estimates using discounted cash flow, discount rate and weighted average cost of capital and the net asset value which depends on the underlying assets in their portfolios. If the assets are quoted bonds, shares or derivatives, fair value is based on market prices at the reporting date. The estimated prices and the used by the brokers have revealed that these prices have resulting very close to the fair value or execution value in a current transaction between willing parties.

(Amount expressed in thousands of US$ dollars)

4. Fair Value of Financial Instruments (Continued)

The following table analyzes the fair values of financial instruments not measured at fair value in books, by the level of fair value hierarchy in which have been classified:

	2018	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	132,418	132,418	-	-
Investment at amortized cost, net	89,747	89,747	-	-
Loans, net	742,208	-	742,208	-
	964,373	222,165	742,208	-
Liabilities				
Deposits				
Non-interest bearing	407,126	407,126	-	-
Interest bearing	890,191	48,234	841,957	-
Financing and borrowing funds	237,965	237,965	-	-
	1,535,282	693,325	841,957	-

	2017	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	184,031	184,031	-	-
Held to maturity	104,701	104,701	-	-
Loans, net	825,361	-	825,361	-
	1,114,093	288,732	825,361	-
Liabilities				
Deposits				
Non-interest bearing	546,946	546,946	-	-
Interest bearing	1,074,465	68,882	1,005,583	-
Financing and borrowing funds	146,934	146,934	-	-
	1,768,345	762,762	1,005,583	-

The Management assessed that cash and cash equivalent, cash equivalent, non-interest bearing deposits, interest bearing deposits and borrowed funds approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair values of loans and terms interest-bearing deposits are determined by using discounted cash flows (DCF) method using discount rate that reflects the market rates available for transactions with similar characteristics in amount, terms and risk at the end of the reporting period.

(Amount expressed in thousands of US$ dollars)

5. Cash and Cash Equivalents

Cash and cash equivalents are represented by deposits with banks and overnight placements. For presentation purposes, in its statement of cash flows, the Bank considers as cash and cash equivalents all highly liquid instruments with original maturities of three months or less.

	2018	2017
Cash	21	5
Interest - bearing deposits with banks	94,538	53,772
Overnight placements	37,859	130,254
Total cash and cash equivalents in the statement of cash flows	132,418	184,031

6. Risk Portfolio, Net

The risk portfolio is as follows

	2018	2017
Loan portfolio, net	742,226	825,403
Investment at fair value through profit or loss	130,447	-
Investment at fair value through comprehensive income	675,984	-
Investment at amortized cost	90,633	-
Investment at available-for-sale financial assets	-	858,939
Investment at held-for-maturity financial assets	-	102,424
Investment at held for trading financial assets	-	49,621
	1,639,290	1,836,387

(Amount expressed in thousands of US$ dollars)

6. Risk Portfolio, Net (Continued)

	2018				
	Cost/ Carrying Value	Gross unrealized gain	Gross unrealized loss	Gross Interest gain	Fair Value
At fair value through profit or loss					
U.S. Corporate bonds	11,532	-	-	165	11,697
Non - U.S. Corporate bonds	70,485	-	-	1,139	71,624
Federal Agencies notes - U.S.	3,433	-	-	75	3,508
Equity securities	43,617	-	-	1	43,618
	129,067	-	-	1,380	130,447
At fair value through comprehensive income					
Federal Agencies notes - U.S.	8,758	43	-	20	8,821
U.S. Corporate bonds	90,975	472	(3,109)	1,129	89,467
Non - U.S. Corporate bonds	577,997	184	(19,931)	6,594	564,844
Sovereign debt	13,159	80	(508)	121	12,852
	690,889	779	(23,548)	7,864	675,984
At amortized cost					
U.S. Corporate bonds	33,074	-	-	174	33,248
Non - U.S. Corporate bonds	48,992	-	-	602	49,594
Sovereign debt	7,810	-	-	95	7,905
	89,876	-	-	871	90,747
Less: Provision for expected losses	(114)	-	-	-	(114)
	89,762	-	-	871	90,633
	909,718	779	(23,548)	10,115	897,064

(Amount expressed in thousands of US$ dollars)

6. Risk Portfolio, Net (Continued)

At December 31, 2018, the Bank has corporate and government bonds that are effectively pledged under sale and repurchase agreements for amount of US$184,786 (2017: US$126,816) of which US$101,362 (2017: US$39,907) is fair value through comprehensive income and US$83,424 (2017: US$86,909) at investment al amortized cost (see Note 10).

	2017				
	Cost/ Carrying Value	Gross Unrealized Gain	Gross Unrealized Loss	Interest Accrued	Fair Value
Held for Trading					
Non - U.S. Corporate Bonds	39,714	-	-	439	40,153
Equity securities	11,639	-	-	-	11,639
Short sale	(2,133)	-	-	(38)	(2,171)
	49,220	-	-	401	49,621
Available-for-sale					
Federal Agencies notes - U.S.	246	25	-	1	272
U.S. Corporate Bonds	400,317	6,056	(1,555)	4,486	409,304
Non - U.S. Corporate Bonds	405,221	4,931	(3,036)	4,490	411,606
Equities, private securities and mutual funds	12,957	9,970	(1,064)	2	21,865
Sovereign debt	15,918	1	(129)	102	15,892
	834,659	20,983	(5,784)	9,081	858,939
Less: Provision for impairment of financial assets	(6,491)	-	6,491	-	-
	828,168	20,983	707	9,081	858,939

Amounts reported in the statements of income relating to gains on financial assets are detailed as follows for the year ended December 31:

	2018	2017
Net realized (loss) gain on securities	(130)	10,086

(Amount expressed in thousands of US$ dollars)

6. Risk Portfolio, Net (Continued)

For the year ended December 31, the activity of financial assets (excluding loans and cash) are summarized as follows:

	2018	2017
Balance at January 1	1,010,984	892,577
Purchases of securities	2,173,406	1,081,740
Sales and write-off, net	(2,253,711)	(980,581)
(Loss) gain from changes in fair value on securities	(31,795)	5,211
Reversal of provision for expected losses (provision for impairment) on securities	(697)	1,266
Net loss on derivatives	(346)	(21)
(Loss) gain on sales	(130)	10,086
Interest receivable	(647)	706
Balance at December 31	897,064	1,010,984

The table below presents an analysis of the financial investments by rating agency designation at December 31, based on Standard & Poor's rating or its equivalent:

	2018					
	Federal Agencies Notes-U.S.	US-Corporate Bonds	Non-US Corporate Bonds	Sovereign Debt	Equity Securities & Funds	Total
At fair value through profit and loss						
AA+ to AA-	-	416	-	-	-	416
A+ to A-	3,508	1,833	14,825	-	-	20,166
BBB+ to BBB-	-	2,104	33,968	-	-	36,072
Lower than BBB-	-	4,421	18,879	-	-	23,300
Unrated	-	2,923	3,952	-	43,618	50,493
	3,508	11,697	71,624	-	43,618	130,447
At fair value through comprehensive income						
AAA	7,031	10,023	3,363	-	-	20,417
AA+ to AA-	1,790	2,045	14,608	58	-	18,501
A+ to A-	-	9,100	65,349	-	-	74,449
BBB+ to BBB-	-	47,112	268,615	11,007	-	326,734
Lower than BBB-	-	20,347	212,075	1,787	-	234,209
Unrated	-	840	834	-	-	1,674
	8,821	89,467	564,844	12,852	-	675,984
At amortized cost						
AAA	-	24,564	-	-	-	24,564
A+ to A-	-	-	7,001	-	-	7,001
BBB+ to BBB-	-	8,658	40,281	7,891	-	56,830
Lower than BBB-	-	-	2,238	-	-	2,238
	-	33,222	49,520	7,891	-	90,633
Total	12,329	134,386	685,988	20,743	43,618	897,064

(Amount expressed in thousands of US$ dollars)

6. Risk Portfolio, Net (Continued)

	2017					
	Federal Agencies Notes-U.S.	US-Corporate Bonds	Non-US Corporate Bonds	Sovereign Debt	Equity Securities & Funds	Total
Held for Trading						
BBB+ to BBB-	-	-	12,883	(*) (2,171)	-	10,712
Lower than BBB-	-	-	27,270	-	-	27,270
Unrated	-	-	-	-	11,639	11,639
	-	-	40,153	(2,171)	11,639	49,621
Available-for-sale						
AAA	272	1,285	-	10,304	-	11,861
AA+ to AA-	-	5,960	15,369	2,147	-	23,476
A+ to A-	-	33,673	63,072	798	-	97,543
BBB+ to BBB-	-	175,450	214,310	1,431	-	391,191
Lower than BBB-	-	192,935	117,834	1,212	-	311,981
Unrated	-	-	1,022	-	21,865	22,887
	272	409,303	411,607	15,892	21,865	858,939
Held to Maturity						
AAA	-	-	-	25,519	-	25,519
A+ to A-	-	2,525	4,542	-	-	7,067
BBB+ to BBB-	-	6,748	50,610	-	-	57,358
Lower than BBB-	-	-	4,403	-	-	4,403
Unrated	-	-	8,077	-	-	8,077
	-	9,273	67,632	25,519	-	102,424
Total	272	418,576	519,392	39,240	33,504	1,010,984

(*) Short Sale

Loan Portfolio, Net

The loan portfolio by customers' activity at December 31 is detailed as follows:

	2018	2017
Corporate		
Commercial	325,068	353,486
Manufacturing	109,865	119,796
Agriculture	87,239	87,371
Real estate and construction	51,494	64,879
Financial services	45,799	57,986
Mining and other related activities	45,126	50,432
Fishing	34,524	38,824
Transportation and communications	25,612	28,060
Education, health and other services	10,712	14,340
	735,439	815,174
Other activity	6,843	10,269
	742,282	825,443
Less: provision for expected loan losses	(56)	(40)
	742,226	825,403

(Amount expressed in thousands of US$ dollars)

6. Risk Portfolio, Net (Continued)

As of December 31, 2018, there are loans guaranteed with cash amounted to US$377,816 (2017: US$455,625). These loans were matched in amount and maturity.

The distribution for loan portfolio by type of interest rates is as follows:

	2018	2017
Fixed interest rates	398,063	457,647
Floating interest rates	344,219	367,796
	742,282	825,443

The following table summarizes the loans age analysis net based on the contractual delinquency status of payments under the loan-terms.

	2018	2017
Current	742,094	823,916
31 - 60 days	132	1,137
60 - 90 days	-	350
	742,226	825,403

A summary of the loan portfolio by the geographic location of the borrowers and the respective collateral is as follows:

	2018				
		Loan Collaterals			
	Carrying Value	U.S. Securities and Real Estate	U.S. Dollar Deposits	Other Collateral	Unsecured Portion
Peru	686,122	56,624	375,785	250,347	3,366
Colombia	21,361	-	-	-	21,361
Panama	20,419	1,583	1,008	3,926	13,902
British Virgin Islands	8,725	-	3	8,722	-
United States of America	2,123	-	-	2,123	-
New Zealand	1,656	241	-	1,415	-
Mexico	1,007	-	1,007	-	-
Uruguay	645	-	13	632	-
Venezuela	175	-	-	175	-
Switzerand	49	-	-	49	-
	742,282	58,448	377,816	267,389	38,629

(Amount expressed in thousands of US$ dollars)

6. Risk Portfolio, Net (Continued)

	2017				
		Loan Collaterals			
	Carrying Value	U.S. Securities and Real Estate	U.S. Dollar Deposits	Other Collateral	Unsecured Portion
Peru	744,875	47,756	450,350	235,208	11,561
Colombia	35,098	-	-	-	35,098
Panama	29,193	6,886	3,596	1,940	16,771
British Virgin Islands	11,791	1,408	669	9,714	-
New Zealand	1,641	234	-	1,407	-
United States of America	1,540	-	-	1,540	-
Ecuador	1,010	-	1,010	-	-
Venezuela	294	-	-	294	-
Cayman Islands	1	-	-	1	-
	825,443	56,284	455,625	250,104	63,430

Provision

Changes in the provision for impairment of financial assets and provision for loan losses are as follows:

	2018			
	Provision for impairment of financial assets	Provision for expected loss IFRS 9	Provision for Credit Losses	Total
Balance at December 31, 2017	6,491	-	40	6,531
Reclassification balance	(6,491)	6,491	-	-
Re-measurement - IFRS 9	-	(4,407)	(15)	(4,422)
Balance at January 1, 2018, adjusted	-	2,084	25	2,109
Increase of provision	-	582	31	613
Write-off	-	(905)	-	(905)
Balance at December 31, 2018	-	1,761	56	1,817

	2018		
	Provision for Impairment of Financial Assets	Provision for Loan Losses	Total
Balance at January 1	8,166	40	8,206
Increase	235	-	235
Write-off	(409)	-	(409)
Reversals	(1,501)	-	(1,501)
Balance at December 31	6,491	40	6,531

(Amount expressed in thousands of US$ dollars)

7. Acquisition of Subsidiary and Goodwill

Acquisition of Subsidiary
On November 22, 2017, the Bank acquired 100% of the shares and voting interest in Correval Panama, S. A. As a result, the Bank obtained a full control of Correval. For consolidation purposes, Correval interest is accounted using the equity method.

Correval serves as a brokerage company with operations in Panama and the international market. Its activities are regulated by the "Superintendencia de Mercado de Valores de Panama". With this acquisition, taking control of Correval, ASB looks to improve and consolidate processes, services and operations in its Panamanian branch and also improve its services and products related to brokerage activities.

The following table summarizes the acquisition date fair value of each major class of assets involved in the acquisition.

Cash	5,789
Fixed assets	70
Settlement of pre-existing relationship	(37)
Total interest acquired	5,822

Goodwill

The Bank has recognized goodwill in the amount of US$278 thousand as a result of the acquisition of full interest in Correval Panama, S. A. The goodwill arising from the acquisition has been recognized and measured at cost less accumulated impairment losses in other asset.

Acquisition cost	6,100
Fair value of identifiable net assets	(5,822)
Goodwill	278

At December 31, 2018, Correval contributed profit of US$185 to the Bank's results. (2017: US$68).

(Amount expressed in thousands of US$ dollars)

8. Other Assets

At December 31, the breakdown of other assets are as follow:

	2018	2017
Operations in progress – Investments	66,731	14,937
Accounts receivables – Investments	6,861	7,633
Prepaid expenses	1,569	559
Accounts receivables – Relates parties	1,057	1,288
	76,218	24,417

9. Derivative Financial Instruments

The Bank uses the following derivative instruments for hedging and trading purposes. The table below shows the fair values of derivative financial instruments recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded as gross amount, is the amount of the derivative's underlying asset, referenced to rates or indexes and is the basis upon which changes in the value of derivatives are measured. The notional amount indicates the volume of transactions outstanding at year end and is indicative of neither the market risk nor the credit risk.

	2018			2017		
	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
Derivatives Held for Trading						
Forward foreign currency contracts - sale	4	3	2,382	-	39	4,626
Futures	167	788	71,600	22	90	63,695
Interest rate swaps	188	775	15,948	161	595	23,756
Credit default swaps	358	89	6,229	344	4	9,100
	717	1,655	96,159	527	728	101,177

For the year ended December 31, 2018, the Bank recognized a net loss of US$346 (2017: US$21), representing the net loss in derivative financial instruments held for trading and economic hedging purposes.

9. Derivative Financial Instruments (Continued)

As of December 31, 2018 and 2017, the Bank had positions in the following types of derivatives:

Forwards and Futures
Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements.

The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk. The Bank has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchange help ensure that these contracts are always honored.

Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps
An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate (most often the LIBOR). A company will typically use interest rate swaps to limit or manage exposure to fluctuations in interest rates, or to obtain a marginally lower interest rate than it would have been able to get without the swap.

Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amount. The Bank purchases credit default swaps from and to counterparties in order to mitigate the risk of default by the counterparty on the underlying security referenced by the swap and for yield enhancement purposes.

Derivative Financial Instruments Held or Issued for Trading Purposes
Most of the Bank's derivative trading activities are related to its investment portfolio, in order to reduce its exposure to risk. These are normally contracted in the over-the-counter market. The Bank may also take positions with the expectation of profiting from favorable movements in prices, rates or indexes. Also, under this hedging are included any derivatives which do not meet IAS 39 hedging requirements.

(Amount expressed in thousands of US$ dollars)

10. Financing and Borrowing Funds

The Bank maintained financing and borrowing funds through repurchased agreements which amounted US$179,440 (2017: US$116,867) and short-term financing as working capital of US$58,525 (2017: US$30,067).

The following table details other borrowed funds:

	2018	2017
Amount at the end of the year	237,965	146,934
Average during the year	242,802	53,219
Maximum at any month end	289,730	146,588

The breakdown of financing and borrowing funds is as follows:

Repurchased Agreements	Interest Rate%	Maturity	2018	Interest Rate %	Maturity	2017
	2.90	28-Jan-19	8,298	1.70	20-Mar-18	12,305
	2.30	09-Jan-19	3,842	1.70	18-Jun-18	11,838
	2.90	05-Feb-19	9,856	1.95	20-Feb-18	4,384
	2.35	04-Mar-19	19,445	1.98	30-Apr-18	12,659
	3.00	15-Feb-19	9,366	2.03	27-Jul-18	12,704
	2.90	01-Mar-19	22,515	1.98	31-Jan-18	4,901
	2.90	20-Mar-19	19,252	2.14	30-Apr-18	9,922
	2.98	04-Apr-19	17,096	2.16	12-Jun-18	11,882
	3.05	11-Jul-19	16,177	2.00	16-Jan-18	9,017
	2.94	13-Aug-19	504	2.07	08-Mar-18	16,939
	2.92	14-Aug-19	502	2.00	16-Feb.18	10,316
	2.94	14-Aug-19	1,497			-
	2.97	14-Aug-19	28,484			-
	2.99	14-Aug-19	4,233			-
	3.17	14-Aug-19	6,460			-
	3.27	25-Oct-19	11,913			
			179,440			116,867
Working Capital						
	3.31	09-Jan-19	25,396	2.51	11-Jun-18	20,026
	3.92	06-Mar-19	20,057	2.44	31-Jan-18	10,041
	3.45	02-Jan-19	441			-
	4.34	02-Jan-19	12,631			-
			58,525			30,067
Total financing and borrowing funds			237,965			146,934

(Amount expressed in thousands of US$ dollars)

10. Financing and Borrowing Funds (Continued)

The reconciliation arising from financing activities show in the 2018 cash flows is as follows:

	2018		
	Repurchase Agreements	Working Capital	Total
Opening balance	116,867	30,067	146,934
Proceeds from borrowings	758,370	188,073	946,443
Repayments of borrowings	(697,011)	(160,000)	(857,011)
Interest payable	1,214	385	1,599
	179,440	58,525	237,965

At December 31, 2018, the Bank included in amounts of financing and borrowing funds US$179,440 (2017: US$116,867) from repurchase agreements that are guarantee with investment securities (see Note 6).

	2017		
	Repurchase Agreements	Working Capital	Total
Opening balance	20,618	15,000	35,618
Proceeds from borrowings	377,475	60,000	437,475
Repayments of borrowings	(281,390)	(45,000)	(326,390)
Interest payable	164	67	231
	116,867	30,067	146,934

11. Balances and Transactions with Related Parties

The term "related parties" is defined by Management to encompass other affiliated parties over which control or significant influence exists through common ownership, management or directorships. In the ordinary course of its business the Bank has incurred transactions with related parties such as shareholders, non-consolidated companies, directors and key management personnel.

(Amount expressed in thousands of US$ dollars)

11. Balances and Transactions with Related Parties (Continued)

Following is a detailed schedule of balance and transactions with related parties:

	2018		2017	
	Directors, key management personnel and other related parties	Affiliates	Directors, key management personnel and other related parties	Affiliates
Statement of Financial Position				
Assets				
Interest-bearing deposits with banks	-	42,495	-	1,694
Overnight placements	-	10,000	-	118,000
Risk portfolio				
Investments in financial instruments, mutual funds managed by the Bank and other related parties	13,224	6,981	543	-
Loans	15,859	9,895	25,127	13,287
Accumulated interest receivable	374	223	798	91
Investment in subsidiary	-	6,075	-	5,890
Other assets	516	541	552	736
Liabilities				
Deposits (demand and time)	257,049	39,618	281,686	170,082
Interest payable	1,976	286	1,549	104
Other liabilities	220	763	375	769

For the years ended December 31, 2018 and 2017, the Bank has not made any provision for expected losses relating to amounts owed by related parties and affiliates. The loans collateralized by time deposits, pledge over financial assets amounted to US$44,007 in 2018 (2017: US$25,530).

(Amount expressed in thousands of US$ dollars)

11. Balances and Transactions with Related Parties (Continued)

The Bank has guaranteed revolving credit line loans with Banco de Credito de Peru, S. A. amounted to US$6,617 (2017: US$6,676), where full risk participation has been sold off to customers without recourse to the Bank and the full amount is guaranteed by deposits received from customers.

	2018		2017	
	Directors, key management personnel and other related parties	Affiliates	Directors, key management personnel and other related parties	Affiliates
Off-balance sheet				
Forward currency contracts	-	-	-	-
Commitments for letter of credit	-	18,442	-	54,382
Investment on behalf of customers	349,984	-	254,302	-
Statement of Income				
Salaries and benefit	2,362	-	2,066	-
Interest and dividend income	1,489	2,316	1,571	1,227
Interest expense	5,562	230	3,759	203
Fee and commission income	1,883	967	1,864	1,383
Fee and commission expense	-	6,309	-	6,243
Realized gains in investments	-	104	-	-
General and administrative expenses	-	95	-	46
Other income	-	379	-	386

12. Other Liabilities

At December 31, the breakdown of other liabilities are as follow:

	2018	2017
Operations in progress - Investments	80,524	8,603
Accounts payables - Investments	2,145	537
Accounts payables – Services	1,300	2,585
Accounts payables – Related parties	983	1,144
	84,952	12,869

(Amount expressed in thousands of US$ dollars)

13. Share Capital

The number of authorized, issued and outstanding ordinary shares of the Bank as of December 31, 2018 was 70,000,000 (2017: 70,000,000) with a par value of US$1. During the year ended December 31, 2018, the Bank declared and paid dividend of US$40,000 (2017: US$47,000).

14. Revenue from Contracts with Customers

At December 31, the breakdown of review products from contracts with customer are as follower:

	2018	2017
Asset Management	17,390	15,316
Retail and Corporate Banking Services	1,918	2,869
	19,308	18,185

15. Commitments and Contingencies

The financial statements do not reflect various commitments and contingencies which arise in the normal course of business and which involve elements of credit, investments and liquidity risk. Among them are commercial letters of credit, stand-by letters of credit and guarantees plus commitments to purchase and sell securities. The commitments and contingencies consist of:

	2018	2017
Loans commitments	31,621	35,763
Hedge funds and private equities	21,278	25,190
Stand-by letters of credit and guarantees	17,292	53,882
Commercial letters of credit	1,150	500
	71,341	115,335

(Amount expressed in thousands of US$ dollars)

15. Commitments and Contingencies (Continued)

Commitments and contingencies classification by stage:

	Stage 1	Stage 2	Stage 3	2018	2017
Stand-by letters of credit and guarantees	17,292	-	-	17,292	53,882

Commercial and stand-by letters of credit and guarantees include exposure to credit risk in the event of nonperformance by customers. Risks also arise from the possible nonperformance by the counterparty to the transactions.

Since stand-by letters of credit and guarantees have fixed maturity dates and many of them expire without being drawn upon, they do not generally present a significant liquidity risk to the Bank.

As of December 31, 2018, the stand-by letters of credit and guarantees for amount of US$17,292 (2017: US$56,933) are collateralized by time deposits of US$4,959 (2017: US$45,095) and investment securities of US$12,333 (2017: US$11,838).

Legal Proceedings

The Bank along with its subsidiaries, are involved in certain legal proceedings that arise in the normal course of conducting business. Management does not believe that any liabilities that may result from such proceedings would have a material adverse effect on the Bank's financial condition or results of operations, or on the financial condition or results of operations of any of its subsidiaries.

(i) *Madoff Trustee Litigation*

On September 22, 2011, the Trustee for the liquidations of Bernard L. Madoff Investment Securities LLC (BLMIS), ("the Madoff Trustee") filed a complaint against Credicorp's subsidiary Atlantic Security Bank (ASB) in U.S. Bankruptcy Court Southern District of New York, for an amount of approximately US$120.0 million ("the Complaint"), which corresponds to the funds that ASB managed in Atlantic US Blue Chip Fund and that were redeemed between the end of 2004 and the beginning of 2005 from Fairfield Sentry Limited Fund in Liquidation (hereafter "Fairfield"), a fund that invested in BLMIS.

15. Commitments and Contingencies (Continued)

Legal Proceedings (continued)

(i) Madoff Trustee Litigation (continued)

The Complaint further alleges that the Madoff Trustee filed an adversary proceeding against Fairfield, seeking to avoid and recover the initial transfers of money from BLMIS to Fairfield; that on June 7 and 10, 2011, the Bankruptcy Court approved a settlement between the Madoff Trustee, Fairfield and others; and that the Madoff Trustee is entitled to recover the sums sought from ASB as "subsequent transfers" of "avoided transfers" from BLMIS to Fairfield that Fairfield subsequently transferred to ASB. The Madoff Trustee has filed similar actions against other alleged "subsequent transferees" that invested in Fairfield and its sister entities which, in turn, invested in and redeemed funds from BLMIS.

On July 7, 2014, the District Court of New York issued an opinion indicating that the Bankruptcy Laws of the United States are not applicable extraterritorially to permit the recovery of subsequent transfers made outside of the United States, between foreign entities.

Furthermore, the District Court returned the case to the Bankruptcy Court, which, on November 22, 2016, issued a verdict establishing that certain subsequent transfers made overseas could not be recovered under the Bankruptcy Laws of the United States and rejected the demands presented by the Trustee of Madoff against the foreign entities; among them, the ASB.

On March 16, 2017, the Trustee appealed this decision, additionally seeking that the appeal be heard be heard before the Second Circuit of the Court of Appeal of the United States. On September 27, 2017, the Court of Appeals admitted the hearing of the Trustee's appeal directly before said Court. On January 10, 2018, the Trustee presented to the Court the written arguments that support his appeal. Dated April 18 and May 9, 2018, respectively, ASB and the Trustee have submitted additional written arguments supporting their respective positions on the subject.

The Court of Appeals held an oral hearing on the case on November 16, 2018; the Court listened to the arguments of both parties. On February 25, 2019, the Court of Appeals issued its Resolution whereby it has revoked the resolution of the Bankruptcy Court. Although the decision of the Court of Appeals is an adverse outcome in the process does not mean a final result in the trial, but leaves aside a procedural defense that we had. Our attorneys in the United States will be meeting in the next few days with the attorneys of the other defendants to evaluate the next steps.

15. Commitments and Contingencies (Continued)

Legal Proceedings (continued)

(i) Madoff Trustee Litigation (continued)

Management believes that, nevertheless the resolution of the Court of Appeals, ASB has other valid defense arguments against the Madoff Trustee's claims presented in the Complaint and intends to answer the Claim. Management considers, among other substantial defenses, that the Complaint considers only the amounts withdrawn, without taking into account the amounts invested in Fairfield. Furthermore, ASB after redeeming said funds from Fairfield, re-invested them in BLMIS through another vehicle, resulting in a net loss in the funds that ASB managed on behalf of its costumers for approximately US$78.0 million (equivalent to approximately S/263.1 million) as of December, 2008.

ii) Fairfield Liquidator Litigation

On April 13, 2012, Fairfield and its representative, Kenneth Krys (the "Fairfield Liquidator"), filed an adversary proceeding against ASB pursuant to Chapter 15 of the U.S. Bankruptcy Code, in the U.S. Bankruptcy Court for the Southern District of New York, styled as Fairfield Sentry Limited (In Liquidation) v. Atlantic Security Bank, Adv. Pro. No.12-01550 (BRL) (Bankr. S.D.N.Y.) ("Fairfield v. ASB Adversary Proceeding"). The complaint sought to recover the amount of approximately US$115.0 million, reflecting ASB's redemptions of certain investments in Fairfield Sentry Limited, together with investment returns thereon. These are essentially the same moneys that the Madoff Trustee seeks to recover in the Madoff Litigation described above.

Thereafter, the Fairfield v. ASB Adversary Proceeding was procedurally consolidated by the Bankruptcy Court with other adversary actions by the Fairfield Liquidator against former investors in Fairfield Sentry. Pursuant to that consolidation, and by consent of the parties, the Bankruptcy Court decreed the suspension of all proceedings in the Fairfield Liquidator adversary actions (except for the filing of amended complaints) in the light of the pending litigation in the British Virgin Island courts (BVI litigation) calling into question the Fairfield Liquidator's ability to seek recovery of funds invested with and redeemed from Fairfield Sentry. This suspension has been lifted, and on September 18, 2016, the Fairfield Liquidator filed a New Complaint (the modified original Complaint) against ASB. On January 13, 2017, ASB has presented, together with other defendants, a procedural motion/defense for the Complaint to be dismissed. On January 25, 2018, a hearing was held in which the parties have orally presented their arguments in support of each of their positions.

15. Commitments and Contingencies (Continued)

Legal Proceedings (continued)

ii) Fairfield Liquidator Litigation (continued)

On August 6, 2018 the Bankruptcy Court issued a resolution stating that it has jurisdiction over the matter being sued, but that it will still have to determine whether the complaint has sufficient substantive grounds (merits) to be protected and also whether the Court has jurisdiction regarding each of the defendants. The latter will have to be determined case by case based on an analysis of the facts referred to each one of the defendants. On December 12, 2018, the Court issued a resolution sheltering, in part, and denying in part, the motion to dismiss the claim. In said resolution, the Court orders the Fairfield Liquidator to negotiate or reach agreements with the defendant parties, observing the provisions of said resolution.

Management considers that ASB has substantial defenses against the Fairfield Liquidator's claims alleged in the Amended Complaint and intends to contest these claims vigorously.

16. Other Income and Expenses

This note provides a breakdown of the items included in "other income / expenses" and the information about specific profit and loss disclosed.

	2018	2017
Other income (i)	417	450

(i) The Bank recorded profits and losses relating to income from unemployment fund, regulatory bank guarantee deposit, other rendered services not related to their core business and expenses relating to loss assumed by customers' transactions.

17. Fiduciary Activities

The Bank maintains off-balance sheet, assets for the account and risk of customers, which comprise loans, investment securities totaling US$5,771,610 (2017: US$5,432,942). These assets are comprised of customer portfolios under custody of US$4,578,600 (2017: US$4,128,686), which includes US$1,254,544 (2017: US$1,285,291) managed under discretionary mandates. Additionally, the Bank managed trust on behalf of customers of US$13,053 (2017: US$13,163) and portfolios under discretionary mandates which custody are managed at other banks by US$498,635 (2017: US$309,108).

18. Subsequent Event

The Bank has evaluated the impact of all subsequent events through April 29, 2019, which is the date that the financial statements were available to be issued and has determined that there were no additional subsequent events requiring adjustment or disclosure to the financial statements.