Audited Financial Statements

Inteligo Bank Ltd.

Year ended December 31, 2018
with Independent Auditors' Report

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Independent Auditors' Report

The Board of Directors
Inteligo Bank Ltd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Inteligo Bank Ltd. (the "Bank") which comprise the statement of financial position as at December 31, 2018, and the statement of income, statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Responsibilities of management and the Board of Directors 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.

The Board of Directors are responsible for overseeing the Bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

We communicate with the Board of Directors 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.

Ernst & Young

March 30, 2019

Inteligo Bank Ltd.
Statement of Financial Position
December 31, 2018

(Amounts expressed in thousands of US$ dollars)

Notes		2018 US$ 000	2017 US$ 000
	ASSETS		
	Cash and deposit with banks		
	Cash	**9**	8
	Deposit with banks:		
	Demand deposits	**72,929**	76,918
	Time deposits	**62,302**	37,608
5		**135,240**	114,534
	Financial assets:		
6, 22	At fair value through profit or loss (FVPL) (includes $103,927 pledged as collateral in 2018)	**346,616**	8,576
6, 22	At fair value through other comprensive income (FVOCI) (includes $17,937 pledged as collateral in 2018)	**117,594**	-
6, 22	Securities available-for-sale	**-**	355,889
		464,210	364,465
7	Loans, net	**460,452**	404,795
		460,452	404,795
	Accrued interest receivable	**9,267**	8,100
8	Property, furniture, equipment and improvements	**6,607**	6,869
9	Intangible assets	**4,166**	3,909
10	Securities sold pending settlement	**171**	728
11	Other assets	**19,162**	16,218
		39,373	35,824
	TOTAL ASSETS	**1,099,275**	919,618

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

Inteligo Bank Ltd.
Statement of Financial Position (continued)
December 31, 2018
(Amounts expressed in thousands of US$ dollars)

Notes		2018 US$ 000	2017 US$ 000
	LIABILITIES AND SHAREHOLDER'S EQUITY		
	Liabilities		
	Deposits:		
12	Demand	**290,554**	328,914
	Time	**482,855**	366,344
		773,409	695,258
13	Borrowings	**96,000**	-
	Accrued interest payable	**4,065**	4,887
10	Securities bought pending settlement	**97**	16
	Other liabilities	**4,495**	7,198
		8,657	12,101
	Total liabilities	**878,066**	707,359
	Shareholder's Equity		
14	Share capital	**20,000**	20,000
	Other accumulated comprehensive income	**793**	10,324
	Regulatory reserve	**4,567**	6,294
	Retained earnings	**195,849**	175,641
	Total Shareholder's Equity	**221,209**	212,259
	TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**1,099,275**	919,618

Approved on behalf of the Board of Directors on March 30, 2019 by the following:

Roberto Hoyle
Director

Reynaldo Roisenvit
Director

Inteligo Bank Ltd.
Statement of Income
For the year ended
December 31, 2018

(Amounts expressed in thousands of US$ dollars)

Notes		**2018** **US$ 000**	2017 US$ 000
	Interest income:		
	Interest on loans	**20,075**	24,958
	Interest on securities	**17,640**	16,892
	Interest on deposits with banks	**1,173**	1,087
	Dividend income	**7,194**	2,946
	Total interest income	**46,082**	45,883
	Interest expense	**(13,055)**	(15,936)
	Net interest income	**33,027**	29,947
	Income (expense) from financial services and other items:		
16	Net unrealized gain on financial assets at FVPL	**3,375**	-
16	Net gain on financial assets at FVPL	**7,055**	-
16	Gain on securities available-for-sale	**-**	26,025
16	Net gain (loss)on financial assets at FVOCI	**1,334**	(713)
6	Reversal of reserve of financial assets at FVOCI	**541**	-
6	Impairment loss on securities available-for-sale	**-**	(4,682)
19	Commision income	**33,529**	32,935
	Commision and other expense	**(4,137)**	(4,293)
	Other income	**850**	660
	Total income from financial services and other items, net	**42,547**	49,932
	General and administrative expenses:		
17	Salaries and employee benefits	**5,727**	7,817
18	Rent	**28**	28
17	Professional fees	**8,210**	7,890
8, 9	Depreciation and amortization	**2,364**	2,162
17	Other	**3,052**	3,836
	Total general and administrative expenses	**19,381**	21,733
15	**Net profit**	**56,193**	58,146

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

Inteligo Bank Ltd.
Statement of Comprehensive Income
For the year ended
December 31, 2018

(Amounts expressed in thousands of US$ dollars)

Notes		**2018** **US$ 000**	2017 US$ 000
	Net profit for the year	**56,193**	58,146
	Other comprehensive income:		
	Financial assets at FVOCI:		
	Net gain arising during the year	**229**	6,618
6, 15	Reclasification adjustments to the statement of income	**(431)**	(6,463)
	Reserve of financial assets at FVOCI	**566**	-
	Net gain of financial assets at FVOCI	**364**	155
	Total comprehensive income for the year	**56,557**	58,301

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

Inteligo Bank Ltd.
Statement of Changes in Shareholder's Equity
For the year ended
December 31, 2018

(Amounts expressed in thousands of US$ dollars)

	Share Capital US$ 000	*Other Accumulated Comprehensive Income*	*Regulatory Reserve US$ 000*	*Retained Earnings US$ 000*	*Total Shareholder's Equity US$ 000*
At January 1, 2017	20,000	10,169	6,294	157,995	194,458
Net profit for the year	-	-	-	58,146	58,146
Other comprehensive income:					
Securities available-for-sale:					
Net change in fair value	-	6,618	-	-	6,618
Reclasification ajustments to the statement of income	-	(6,463)	-	-	(6,463)
Net gain on securities available-for-sale	-	155	-	58,146	58,301
Transactions with owners, recorded directly in equity:					
Dividends declared	-	-	-	**(40,500)**	(40,500)
Regulatory reserve	-	-	-	-	-
At December 31, 2017	20,000	10,324	6,294	175,641	212,259
Effects of adoption of IFRS 9:					
For reclassification of financial assets to FVPL	**-**	**(9,895)**	**-**	**9,895**	**-**
Reserve for expected credit losses on financial assets at FVOCI	**-**	**1,107**	**-**	**(1,107)**	**-**
Total effects of adoption of IFRS 9	**-**	**(8,788)**	**-**	**8,788**	**-**
At January 1, 2018	**20,000**	**1,536**	**6,294**	**184,429**	**212,259**
Net profit for the year	**-**	**-**	**-**	**56,193**	**56,193**
Other comprehensive income:					
Financial assets at FVOCI					
Net gain arising during the year	**-**	**229**	**-**	**-**	**229**
Reclasification ajustments to the statement of income	**-**	**(431)**	**-**	**-**	**(431)**
Net gain on financial assets at FVOCI	**-**	**(202)**	**-**	**56,193**	**55,991**
Adjustment to the reserve of expected credit losses on debt instruments at FVOCI	**-**	**(541)**	**-**	**-**	**(541)**
Transactions with owners, recorded directly in equity:					
Dividends declared	**-**	**-**	**-**	**(46,500)**	**(46,500)**
Adjustment to regulatory reserve	**-**	**-**	**(1,727)**	**1,727**	**-**
At December 31, 2018	**20,000**	**793**	**4,567**	**195,849**	**221,209**

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

Inteligo Bank Ltd.
Statement of Cash Flows
For the year ended
December 31, 2018

(Amounts expressed in thousands of US$ dollars)

Notes		**2018** **US$ 000**	2017 US$ 000
	Cash flows from operating activities		
	Net profit	**56,193**	58,146
	Adjustments to reconcile net profit to net cash flows:		
8, 9	Depreciation and amortization	**2,364**	2,162
	Reversal of reserve of financial assets at FVOCI	**(541)**	-
	Net gain on financial instruments, available-for-sale	**-**	(26,025)
	Net gain on financial instruments at FVOCI	**(1,334)**	-
	Interest income	**(46,082)**	(45,883)
	Interest expense	**13,055**	15,936
	Operating results before working capital changes	**23,655**	4,336
	Securities at fair value	**-**	(6,523)
	Financial assets at FVPL	**(43,796)**	-
	Impairment loss on securities available-for-sale	**-**	4,682
	Loans	**(55,657)**	91,785
	Deposits	**78,151**	(266,033)
	All other assets	**(2,385)**	(4,182)
	All other liabilities	**(2,623)**	1,652
	Net cash flows generated from (used in) operations	**(2,655)**	(174,283)
	Interest received	**44,915**	47,794
	Interest paid	**(13,877)**	(17,516)
	Net cash flows provided by (used in) operating activities	**28,383**	(144,005)
	Cash flows from investing activities		
	Deposits over 90 days	**(26,494)**	26,171
6	Acquisition of securities available-for-sale	**-**	(216,937)
6	Acquisition financial assets at FVOCI	**(105,899)**	-
6	Proceeds from sale of securities available-for-sale	**-**	273,634
6	Proceeds from sale financial assets FVOCI	**48,653**	-
6	Redemption available-for-sale	**-**	37,581
6	Securities available-for-sale	**-**	750
	Financial assets at FVOCI	**2,427**	-
8	Purchase of furniture, equipment an improvements	**(232)**	(46)
9	Intangible assets	**(2,254)**	(781)
8,9	Disposal of assets	**127**	53
	Net cash flows (used in) provided by investing activities	**(83,672)**	120,425
	Cash flows from financing activities		
12	Proceeds (repayment) of borrowings	**96,000**	(20,000)
14	Dividends paid	**(46,500)**	(40,500)
	Net cash flows provided by (used in) financing activities	**49,500**	(60,500)
	Net decrease in cash and cash equivalents	**(5,789)**	(84,080)
	Cash and cash equivalents at January 1	**90,705**	174,785
	Cash and cash equivalents at December 31	**84,916**	90,705

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

1. Corporate Information

Inteligo Bank Ltd. ("the Bank") was incorporated under the laws of The Commonwealth of The Bahamas in 1995 and is licensed by The Central Bank of The Bahamas to conduct various types of banking, financing and investment activities. The registered office of the Bank is located at Seventeen Shop Building, First Floor, Collins Avenue & Fourth Terrace, Centreville, Nassau, The Bahamas. The Bank is a wholly-owned subsidiary of Inteligo Group Corp., an entity incorporated under the laws of the Republic of Panama. Inteligo Group Corp. was acquired by Intercorp Financial Services Inc., a public company listed in the Lima Stock Exchange (Bolsa de Valores de Lima, BVL) under the ticker IFS.

The Bank established a branch in Panama ("the Branch"), on January 10th, 1997 under the laws of the Republic of Panama. The Branch operates under an international license issued by the Superintendence of Banks of Panama through resolution No. 26-96 of December 1996. The banking operations in Panama (primarily lending and borrowing activities) are subject to regulatory requirements and the supervision of the Superintendence of Bank of Panama, pursuant to Agreement No. 9 of February 26, 1998; as modified by Law Decree No.2 of February 22, 2008.

The financial statements were authorized for issuance according to resolution of the Board of Directors of Inteligo Bank Ltd. on March 29, 2019.

2. Statement of Compliance

The financial statements of Inteligo Bank Ltd. have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board ("IASB").

3. Basis of Preparation of Financial Statements

3.1 Basis of presentation

The financial statements have been prepared on an historical cost basis, except for the measurement at fair value of financial assets at fair value through profit and loss (FVPL) and at fair value through other comprehensive income (FVOCI) under IFRS 9, and previously available-for-sale financial assets and trading securities reported under International Accounting Standard (IAS) 39. The financial statements are presented in United States of America dollars (US$) and all values are rounded to the nearest thousand (US$000) except when otherwise indicated. The Bank presents its statements of financial position in order of liquidity.

3. Basis of Preparation of Financial Statements (continued)

3.2 Significant accounting judgments and estimates

Judgment

The preparation of the financial statements in conformity with International Financial Reporting Standards requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the accompanying disclosures, as well as the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Estimates

Starting on January 1, 2018, the Bank adopted IFRS 9 "Financial Instruments", which replaces IAS 39 "Financial Instruments: Recognition and Measurement".

The main impacts of said adoption are described below:

(a) Classification and Measurement – Financial Assets

IFRS 9 includes three main classification categories for financial assets: measured at amortized cost; at fair value through profit or loss; and at fair value through other comprehensive income. It also eliminates IAS 39's existing categories of held trading, held-to-maturity, loans and receivables, and available-for-sale.

A financial asset is recorded at amortized cost if it meets the following two conditions and is not designated at fair value through profit or loss:

- The objective of the business model is to hold the financial asset in order to collect the contractual cash flows; and
- The contractual terms of the assets correspond to cash flows that are solely payments of principal and interest (SPPI) on the outstanding principal amount.

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

3. Basis of Preparation of Financial Statements (continued)

A financial asset must be measured at fair value through other comprehensive income (FVOCI) only if it that meets the following two conditions and is not designated at fair value through profit or loss:

- The objective of the business model is to both obtain contractual cash flows and sell the financial assets; and
- The contractual terms of the assets give rise to cash flows that are SPPI on the outstanding principal amount.

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments that are not held for trading as equity instruments at FVOCI when they meet the definition of equity under IAS 32 “Financial Instruments: Presentation. Such classification is determined on an instrument by instrument basis.

All the financial assets that are not measured at amortized cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

(b) Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the model of incurred losses of IAS 39 with the model of expected credit losses (ECL). This new model requires the estimation of expected credit losses adjusted by the future changes in macroeconomic factors (forward-looking approach), which shall be determined based on probability weighting.

The new impairment model is applied to financial instruments that are not measured at fair value through profit or loss, such as financial assets that are debt instruments and financial assets at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment.

(b.1) Measurement of the expected credit loss

The parameters for measuring the expected credit loss are the following:

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

PD estimations are calculated at a determined date and are obtained by applying the Bank’s risk grading models.

The LGD is an estimate of the loss arising in the case where a default occurs at a given time. The Bank calculates the LGD parameters with historical information of the recovery rates for different products. LGD models consider: the guarantee and the recovery costs of the guarantee.

3. Basis of Preparation of Financial Statements (continued)

The EAD represents the expected exposure at a future default date. The Bank calculates the EAD of the counterpart and the possible changes in the current amount according to the contract, including amortization and pre-payments. The EAD of a financial asset shall be the book value at the moment of default. In the case of loan commitments and financial guarantees, the EAD shall consider the used amount, as well as the potential future amounts that can be extracted or reimbursed pursuant to the contract, which shall be estimated in function of the historical records and macroeconomic factors. The EAD includes the direct and indirect (contingent) credit risk, which is determined by the credit conversion factor (CCF).

The Bank uses a 12-month PD for financial assets whose credit risk has not increased significantly since their initial recognition. For the rest of financial assets, the Bank shall measure the expected loss considering the default risk for the expected remaining life of the financial instrument.

At each reporting date, the Bank measures the expected credit loss by classifying the financial assets as follows:

• "Stage" 1: A 12-month expected credit loss is recognized on financial assets whose credit risk has not increased significantly since their initial recognition. The interest income is measured based on the gross carrying amount of the financial asset.

• "Stage" 2: A lifetime expected credit loss is recognized on financial assets whose credit risk has increased significantly since their initial recognition. The interest income is measured based on the gross carrying amount of the financial asset.

• "Stage" 3: A lifetime expected credit loss is recognized on credit-impaired financial assets. The interest income is measured based on the net carrying amount of the financial asset.

Forward-looking information

According to IFRS 9, the Bank includes prospective information in order to determine its expected credit loss. This process implies the use of economic scenarios and taking into account the probability of occurrence for each scenario. This information can be external and can use economic data and forecasts published by regulatory entities.

(c) Fair value of financial instruments

The Bank determines the fair values of certain financial instruments by means of valuation techniques that use a significant amount of inputs, not necessarily based on observable data, when these unobservable inputs have a significant effect on the instruments' valuation.

3. Basis of Preparation of Financial Statements (continued)

Availability of observable market prices and model inputs reduces the need for management judgment and estimation; and therefore the possible uncertainty associated with the determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments the Bank uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs used in these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation technique, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and for the selection of appropriate discount rates.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a portfolio valuation function, which is independent of front office management. Specific controls include: verification of observable pricing inputs and performance of model valuations; a review and approval process for new models and changes to existing models; calibration and back testing of models against observed market transactions; and review of significant unobservable inputs and valuation adjustments.

Regardless of the established control framework, the economic environment prevailing during recent years has increased the degree of uncertainty inherent in these estimates and assumptions.

Fair value estimates are made at a specific date based on relevant market estimates and information about the financial instruments. The Bank holds financial instruments for which limited or no observable market data is available. Fair value measurements for these instruments fall within Level 3 of the fair value hierarchy of IFRS 13 “Fair Value Measurements”. These fair value measurements are based primarily upon managements` own estimates and are often calculated based on the Bank’s current pricing policy, the current economic and competitive environment, the characteristics of the instrument, credit, interest, and currency rate risks and other such factors. Therefore, the results cannot be backed by comparison to prices quoted in active markets and may not be fully realized in a sale or immediate settlement of the asset or liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including movements in discount rates, liquidity risks, and estimates of future cash flows that could significantly affect the fair value measurement amounts.

3. Basis of Preparation of Financial Statements (continued)

(c) Financial liabilities

The Bank recognizes, in compliance with IFRS 9, its financial liabilities at amortized cost using the effective interest method. IFRS 9 maintains most of the existing requirements of IAS 39 for the classification of financial liabilities.

However, under IAS 39 all charges in the fair value of liabilities designated as FVTPL are recognized in income, whereas under IFRS 9, the changes due to credit risk of the liability if presented in other comprehensive income; and, the remaining amount of the change in fair value is presented in profit and loss.

3.3 Going Concern

The Bank's Management has made as assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

4. Summary of Significant Accounting Policies

4.1 Significant Accounting Policies

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. As of December 31, 2018, cash and cash equivalents are represented by cash and deposits with banks.

Fair value of financial instruments

Financial instruments are used by the Bank to manage market risk, facilitate customer transactions, hold proprietary positions and meet financing objectives. Fair value is determined by the Bank based on available listed market prices or broker price quotations. Assumptions regarding the fair value of each class of financial assets and liabilities are fully described in Note 21 to the financial statements.

4. Summary of Significant Accounting Policies (continued)

Financial Assets

The Bank recognizes, in compliance with IFRS 9, three classes of financial assets: Financial assets at fair value through profit or loss (FVPL), at amortized cost and financial assets at fair value through OCI (FVOCI), which includes debt instruments that recycle through profit or loss and equity instruments not recycling through profit or loss. The classification depends on the purpose for which the financial assets were acquired and on their intended use. Management determines the classification of its financial assets at initial recognition or acquisition, whichever comes first.

Financial liabilities

The Bank recognizes, in compliance with IFRS 9, its financial liabilities at amortized cost using the effective interest method. IFRS 9 maintains most of the existing requirements of IAS 39 for the classification of financial liabilities.

However, under IAS 39 all charges in the fair value of liabilities designated as FVTPL are recognized in income, whereas under IFRS 9, the changes due to credit risk of the liability is presented in other comprehensive income; and, the remaining amount of the change in fair value is presented in profit and loss.

Borrowings

After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well through the effective interest rate amortization process.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions; or using valuation techniques, including discounted cash flows models and options pricing models, as appropriate. All derivatives are reported as assets when fair value is positive and as liabilities when negative.

Derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the statement of income in the Net gain on financial instruments at FVPL line item. Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets are also included in net gain on financial instruments at FVPL line item.

4. Summary of Significant Accounting Policies (continued)

Determination of fair value

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 financial assets, the Bank uses quoted market prices in an active market or dealer prices, 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 as: recent arm's length market transactions; reference to the current market value of a substantially similar instrument; 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; reviewed in order to determine the appropriateness of the reported balance or whether adjustments are necessary.

Derecognition of financial assets and financial liabilities

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 at FVOCI are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of income as gains and losses on financial instruments at FVOCI.

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 the existing liability are substantially modified, such an exchange or modification is treated as de-recognition of the original liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Interest income and expense

Interest income and expense is recognized in the statement of income for all interest-bearing instruments on an accrual basis applying the effective interest method to the actual purchase price. Interest income includes coupons earned on fixed income investment and accredited 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.

Fees and commissions income

Fees and commissions are generally recognized on an accrual basis once service has been rendered; these are recognized as part of Commission income in the statement of income.

Dividend income

Dividend income is recognized when it is received.

4. Summary of Significant Accounting Policies (continued)

Cash dividend

Cash dividends are recognized when the Bank pays its holding company, which is generally when the shareholders approve the amount of the dividend for the year.

Foreign currency operations

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 and from the translation of monetary assets are measured at the date of the statement of financial position and liabilities denominated in foreign currencies are recognized in the statement of income.

Translation differences on debt securities and other financial assets and liabilities measured at fair value are included as foreign exchange income, as part of Other Income, in the statement of income.

Property, furniture, equipment and improvements

Property, furniture, equipment and improvements 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:

Property	30 years
Improvements	5 years
Furniture and office equipment	2 to 3 years
Vehicles	5 years

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

Intangible assets

Costs associated with maintaining computer software programs are recognized as an expense when they are incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and that will generate economic benefits exceeding costs beyond one year, are recognized as intangible assets.

4. Summary of Significant Accounting Policies (continued)

Expenditures which enhance or extend the performance of computer software programs beyond their original specifications are recognized as a capital improvement and therefore added to the original cost of the software. Computer software costs recognized as assets are amortized using the straight-line method over their useful lives, not exceeding 5 years.

Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to deliver such assets to customers, are excluded from these financial statements if the Bank acts in a fiduciary capacity such as a nominee, trustee or agent, as they are not assets of the Bank.

Income taxes

The Bank operations are tax exempted in both jurisdictions, the Commonwealth of The Bahamas and the Republic of Panama.

4.2 Changes in accounting policies and disclosures.

In these financial statements, the Bank has applied IFRS 9, IFRS 7 modified by IFRS 9 (IFRS7R), and IFRS 15, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

a) IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable for the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of January 1, 2018 and disclose in note 6.

Changes to classification and measurement

In order to determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

4. Summary of Significant Accounting Policies (continued)

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held to maturity and amortized cost) have been replaced by

- Debt instruments at amortized cost.
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition.
- Equity instruments at FVOCI, with no recycling of gains or losses or profit or loss on derecognition.
- Financial assets at FVPL.

The accounting for financial liabilities remains largely the same as it was under IAS39.

The Bank's classifications of its financial assets and liabilities is explained in Note 6.

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record and allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

The reconciliation of the statement of financial position under IAS 39 and IFRS 9 as of January 1, 2018, is presented below. The Bank applied the modified retrospective approach, recording the corresponding adoption effects on January 1, 2018 to the retained earnings.

The reclassification of securities from the available-for-sale portfolio to the FVPL financial assets portfolio had a positive effect of US$ 9,895 on retained earnings. Furthermore, the Expected Credit Loss (ECL) simulation on the FVTOCI portfolio, yielded a result of (US$1,107). A provision for the ECL was established as an appropriation from retained earnings.

4. Summary of Significant Accounting Policies (continued)

	December 31, 2017 US$ 000	**Reclassification** US$ 000	**Adjustment** US$ 000	**December 31, 2018 US$ 000**
ASSETS				
Cash and deposit with banks				
Cash	8	-	-	**8**
Deposit with banks:				
Demand deposits	76,918	-	-	**76,918**
Time deposits	37,608	-	-	**37,608**
	114,534	-	-	**114,534**
Financial assets:				
At fair value though profit or loss (FVPL)	8,576	294,245	-	**302,821**
At fair value though other comprensive income (FVOCI)	-	61,644	-	**61,644**
Securities available-for-sale	355,889	(355,889)	-	**-**
	364,465	-	-	**364,465**
Loans, net	404,795	-	-	**404,795**
	404,795	-	-	**404,795**
Accrued interest receivable	8,100	-	-	**8,100**
Property, furniture, equipment and improvements	6,869	-	-	**6,869**
Intangible assets	3,909	-	-	**3,909**
Securities sold pending settlement	728	-	-	**728**
Other assets	16,218	-	-	**16,218**
	35,824	-	-	**35,824**
TOTAL ASSETS	919,618	-	-	**919,618**

4. Summary of Significant Accounting Policies (continued)

	December 31, 2017 US$ 000	Reclassification US$ 000	Adjustment US$ 000	**December 31, 2018 US$ 000**
LIABILITIES AND SHAREHOLDER'S EQUITY				
Liabilities				
Deposits:				
Demand	328,914	-	-	**328,914**
Time	366,344	-	-	**366,344**
	695,258	-	-	**695,258**
Borrowings	-	-	-	-
Accrued interest payable	4,887	-	-	**4,887**
Securities bought pending settlement	16	-	-	**16**
Other liabilities	7,198	-	-	**7,198**
	12,101	-	-	**12,101**
Total liabilities	707,359	-	-	**707,359**
				-
Shareholder's Equity				
Share capital	20,000	-	-	**20,000**
Unrealized gain on financial assets at FVOCI	10,324	(9,895)	1,107	**1,536**
Regulatory reserve	6,294	-	-	**6,294**
Retained earnings	175,641	9,895	(1,107)	**184,429**
Total Shareholder's Equity	212,259	-	-	**212,259**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	919,618	-	-	**919,618**

b) IFRS 7R

In order to reflect the difference between IFRS 9 and IAS 39, IFRS 7 "Financial Instruments: Disclosures" was updated, and the Bank has adopted it, together with IFRS 9 for the year beginning 1 January 2018.

c) IFRS 15 Revenue from Contracts with customers

IFRS 15 supersedes IAS 18 Revenue and related interpretations and it applies, with limited exceptions to all revenue arising from contracts with customers. IFRS 15 establishes a five step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an account that reflect the considerations to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Management has assessed the impact of the implementation of this standard on the financial statements as of January 1, 2018 and the impact is considered immaterial.

4. Summary of Significant Accounting Policies (continued)

4.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective at the date of the financial statements are disclosed below. The Bank intends to adopt these standards when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single model in the statement of financial position, similar to accounting for finance leases under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.

Inteligo Bank Ltd. is evaluating the effects that the adoption of this standard will have on its financial statements, including the new disclosure requirements; however, the Bank does not anticipate any material impact on its financial position.

5. Cash and Deposits with Banks

	December 31,	
	2018	2017
	US$ 000	US$ 000
Cash	**9**	8
Demand deposits with banks	**72,929**	76,918
Time deposits with banks	**62,302**	37,608
Cash and cash equivalents	**135,240**	114,534
Less: deposits over 90 days	**(50,324)**	(23,829)
	84,916	90,705

At December 31, 2018, the annual interest rates on demand and time deposits in US$ ranged from 0.10% to 7.50% (2017: 0.10% to 6.75%) with maturities of three years or less.

All counterparts are at least BB+ credit rating.

6. Financial Assets

Financial assets include instruments classified at fair value through profit or loss:

	December 31,	
	2018	2017
	US$ 000	US$ 000
Corporate bonds	**815**	3,948
Equity shares and mutual funds	**255,897**	723
Structured products	**1,304**	2,683
Derivatives financial instruments	**-**	1,222
Third party administrated portfolio	**88,600**	-
	346,616	8,576

The portfolio of securities detailed above is comprised mainly of a portfolio of bonds (US$815), structured products (US$1,304), mutual funds (US$255,897), and portfolios with different products managed by a third party (US$88,600). The third party administered portfolio as of December 31, 2018 was composed by corporate bonds US$51,763, US government bonds US$14,178, collateralized mortgage obligations US$13,356, equity US$609, cash US$7,208, pending settlement securities US$9,172, other derivatives US$215 and liabilities -US$7,901).

During 2018 the Bank bought financial assets for US$249,053 (2017: US$54,412), sold securities for US$208,165 (2017: US$48,550) and redeemed securities for US$474 (2017: US$375). Revaluation and realized gain accounted for US$3,329 (2017: US$151) and -US$399 (2017: -US$144) respectively.

The composition and maturity analysis of financial assets at FVOCI as of December 31, 2018 is shown below:

	December 31, 2018					
	0-1 Year US$000	**1 - 5 Years US$000**	**5 - 10 Years US$000**	**More than 10 years US$000**	**With no Maturity US$000**	**Total US$000**
Equity shares	**-**	**-**	**-**	**-**	**5,348**	**5,348**
Corporate bonds	**-**	**94,352**	**10,200**	**7,694**	**-**	**112,246**
	-	**94,352**	**10,200**	**7,694**	**5,348**	**117,594**

6. Financial Assets (continued)

As of December 31, 2017 the portfolio and maturity analysis of securities available-for-sale is shown below:

	December 31, 2018					
	0-1 Year US$000	1 - 5 Years US$000	5 - 10 Years US$000	More than 10 years US$000	With no Maturity US$000	Total US$000
Equity shares	-	-	-	-	58,711	58,711
Mutual funds	-	-	-	-	102,346	102,346
Third Party administered portfolio	(5,210)	74,714	26,689	20,846	18,301	135,340
Corporate bonds	-	43,526	7,681	8,286	-	59,493
	(5,210)	118,240	34,369	29,132	179,358	355,889

As of January 1, 2018, the third party administrated portfolio that was included in the available-for-sale portfolio was reclassified to financial assets at FVPL upon adoption of IFRS 9. The third party administered portfolio as of December 31, 2017 was composed by corporate bonds US$57,286, US government bonds US$39,400, collateralized mortgage obligations US$15,577, mutual funds US$9,471, equity US$14,464, cash US$6,770, swaps US$1,309 and other derivatives and liabilities US$ 8,936.

The coupon rate on fixed-rate bonds classified at FVOCI ranged from 5.25% to 12.15% p.a. (2017: 5.25% to 11% p.a.). Furthermore, the bond portfolio is comprised of floating-rate securities, with coupons based on the corresponding Libor rate plus a spread of 4.90% to 7.50% p.a. (2017: 4.90% p.a.)

Securities for both the financial assets at FVPL and financial assets at FVOCI as of December 31, 2018; and securities available-for-sale and at fair value as of December 31, 2017, classified by type of interest, are shown below:

	December 31,	
	2018	2017
	US$ 000	US$ 000
Fixed rate	**107,452**	51,276
Floating Rate	**5,609**	12,165
Equity (non-interest bearing)	**73,549**	58,711
Structured Products	**1,304**	2,683
Funds (mixed)	**187,696**	103,068
Third party administered funds (mixed)	**88,600**	136,562
	464,210	364,465

6. Financial Assets (continued)

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: valuation techniques for which the lowest input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The financial assets at FVPL and FVOCI classified according to hierarchy of fair value measurements as of December 31, 2018 are described below:

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	US$000	US$000	US$000	US$000
Financial assets at FVPL				
Corporate bonds	**815**	**-**	**-**	**815**
Equity shares and mutual funds	**128,000**	**16,793**	**111,104**	**255,897**
Structured products	**-**	**1,304**	**-**	**1,304**
Third party administrated portfolio	**-**	**88,600**	**-**	**88,600**
	128,815	**106,697**	**111,104**	**346,616**
Financial assets at FVOCI				
Equity shares	**5,348**	**-**	**-**	**5,348**
Mutual funds	**-**	**-**	**-**	**-**
Corporate bonds	**46,547**	**65,699**	**-**	**112,246**
	51,895	**65,699**	**-**	**117,594**

There were no transfers between level 1 and 2 and no transfers into or out of level 3 for 2018 and 2017.

6. Financial Assets (continued)

The securities at fair value and available-for-sale classified according to hierarchy of fair value measurements as of December 31, 2017 are described below:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	US$000	US$000	US$000	US$000
Securities at fair value				
Corporate bonds	3,948	-	-	3,948
Equity shares and mutual funds	-	-	723	723
Structured products	-	2,683	-	2,683
Derivatives financial instruments	-	1,222	-	1,222
	3,948	3,905	723	8,576
Securities available-for-sale				
Equity shares	37,564	-	21,147	58,711
Mutual funds	6,335	38,157	57,854	102,346
Third party administrated portfolio	-	135,340	-	135,340
Corporate bonds	29,371	30,121	-	59,492
	73,270	203,618	79,001	355,889

The fair value of financial assets is calculated as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair value:

- Fair value of quoted debt securities and equity instruments is based on quoted market prices in active markets at the reporting date. When not available, fair value is determined by reference to quoted market prices for similar instruments, adjusted as appropriate to the circumstances of the instruments.

- Fair value of private investment funds 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. If the assets are private debt or equity, fair value is estimated using a discounted cash flow (DCF) model. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management’s estimate of fair value for these unquoted investments.

6. Financial Assets (continued)

The table below shows a description of significant unobservable inputs to valuation:

	Valuation technique	Significant unobservable inputs	Value	Sensitivity of the input to fair value
Private Equity Fund - Pharmaceutical sector	DCF Method	Sales Forecast	Sector Analysts Median Estimates / Depending on each royalty	10% increase (decrease) in the sales forecast would result in increase (decrease) in fair value by US$2,531
		WACC	8%	500 basis points increase in the WACC would result in decrease in fair value by US$4,878 500 basis points decrease in the WACC would result in increase in fair value by US$7,081
Mutual Funds and Investment Participations	DCF Method	Discount Rate	According to Credit Risk	500 basis points increase in the WACC would result in decrease in fair value by US$2,572 500 basis points decrease in the WACC would result in increase in fair value by US$3,324
	Comparable multiples	Price/Sales Ratio	According to Market Sector	10% increase (decrease) in the comparable P/S ratio would result in increase (decrease) in fair value by US$758

The tables below include a reconciliation of fair value measurement of financial instruments classified by the Bank within level 3 of the fair value hierarchy:

	Year ended December 31, 2018
	Financial Assets at FVPL US$000
Balance at January 1 upon adoption of IFRS 9	**79,724**
Purchases	**35,803**
Settlements	**(18,182)**
Net change in value fair during the year	**13,759**
Balance at December 31	**111,104**

Securities at fair value and available for sale classified at level 3 of the fair value hierarchy as of December 31, 2017 were reclassified to financial assets at FVPL on January 1, 2018 with the adoption of IFRS 9.

The tables below include a reconciliation of fair value measurement of financial instruments classified by the Bank within level 3 of the fair value hierarchy as of December 31, 2017:

6. Financial Assets (continued)

	Year ended December 31, 2017	
	Securities at Fair Value US$000	Securities Available for Sale US$000
Balance at January 1	348	97,547
Purchases	445	33,747
Settlements	(72)	(52,167)
Net Change in value fair during the year	2	2,624
Impairments	-	(2,750)
Balance at December 31	723	79,001

The distribution by industry for level 3 financial assets at FVPL as December 31, 2018 is a follow:

	Year ended December 31, 2018				
	Pharmaceutical	**Financial Services**	**Real Estate**	**Diversified**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**
Balance at January 1	**39,627**	**12,242**	**3,453**	**24,402**	**79,724**
Purchases	**2,452**	**19,056**	**7,058**	**7,238**	**35,804**
Settlements / distributions	**(3,296)**	**(4,752)**	**(6,218)**	**(3,917)**	**(18,183)**
Total (gain) recognised in P&L	**3,271**	**11,351**	**143**	**(1,006)**	**13,759**
Balance at December 31	**42,054**	**37,897**	**4,436**	**26,717**	**111,104**

The distribution by industry for level 3 securities classified available-for-sale of December 31,2017 is a follow:

	Year ended December 31, 2017				
	Pharmaceutical	**Financial Services**	**Real Estate**	**Diversified**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**
Balance at January 1	52,962	11,466	-	33,119	97,547
Purchases	21,336	216	4,817	7,378	33,747
Settlements / distributions	(38,883)	(1,550)	(1,175)	(10,559)	(52,167)
Total (gain) recognised in P&L	4,213	1,386	(189)	(2,786)	2,624
Impairments	-	-	-	(2,750)	(2,750)
Balance at December 31	39,628	11,518	3,453	24,402	79,001

6. Financial Assets (continued)

The table below represents an analysis of the financial assets at FVPL and FVOCI by rating agency designation at December 31, 2018 based on Standard & Poor's rating of equivalent funds.

	December 31, 2018					
	Equity Shares US$000	Mutual Funds US$000	Third Party Administered Port. US$000	Corporate Bonds US$000	Structured Products US$000	Total US$000
AAA	-	-	-	-	-	-
AA+ to AA-	-	-	-	-	-	-
A+ to BBB-	-	-	-	**10,595**	-	**10,595**
Lower than BBB-	-	-	-	**36,767**	-	**36,767**
Unrated	**73,549**	**187,696**	**88,600**	**65,699**	**1,304**	**416,848**
	73,549	**187,696**	**88,600**	**113,061**	**1,304**	**464,210**

The table below represents an analysis of the securities at fair value and available-for-sale by rating agency designation at December 31,2017 based on S&P rating of equivalent funds.

	December 31, 2017					
	Equity Shares US$000	Mutual Funds US$000	Third Party Administered Port. US$000	Corporate Bonds US$000	Structured Products US$000	Total US$000
AAA	-	-	-	-	-	-
AA+ to AA-	-	-	-	-	-	-
A+ to BBB-	-	-	-	13,528	-	13,528
Lower than BBB-	-	-	-	19,772	-	19,772
Unrated	58,711	103,068	136,562	30,141	2,683	331,165
	58,711	103,068	136,562	63,441	2,683	364,465

7. Loans, Net

The position of the loan portfolio is summarized below:

	December 31,	
	2018	2017
	US$ 000	US$ 000
Financial	**32,168**	19,557
Commercial	**17,128**	20,648
Industrial	**7,131**	16,151
Services	**87,502**	86,732
Construction and real estate	**72,884**	98,656
Fishing and agriculture	**26,707**	24,226
Consumer	**216,961**	139,051
Mortgages	**-**	42
	460,481	405,063
Less allowance for loan losses	**29**	268
	460,452	404,795

In addition to the allowance for loan losses, in compliance with the Superintendence of Banks of Panama Rule Nº 004-2013, whereby dispositions are established for managing and administering the credit risk inherent to credit portfolio and off-balance sheet operations, the Bank holds a Regulatory Reserve for the amount of US$4,567 at December 2018 that is reported in Shareholder's Equity.

At December 31, 2018, the annual interest rates on loans ranged from 1.2% to 12.25% (2017: 1% to 13.5%), and the weighted average interest rate was 4.78% (2017: 5.12%).

The classification of the loan portfolio by type of interest rate is summarized below:

	December 31,	
	2018	2017
	US$ 000	US$ 000
Fixed rate	**281,472**	250,438
Variable rate (Libor or prime)	**179,009**	154,625
	460,481	405,063

7. Loans, Net (continued)

Loans are secured as follows:

	December 31,	
	2018	2017
	US$ 000	US$ 000
Cash	**228,888**	237,601
Securities	**184,441**	147,275
Others	**45,246**	17,898
Without collateral	**1,906**	2,289
	460,481	405,063

At December 31, 2018, there were no past due, non-accruing, impaired or renegotiated loans, and There were no changes at the stage, the financials instruments are stage 1.

The table below represents an analysis of the loans, by the credit rating internal designation used by the Bank as of December 31, based on the capacity of the obliged to meet its financial commitments:

	Year ended December 31,	
	2018	2017
	US$ 000	US$ 000
Internal (equivalent) risk rating:		
Low (AAA to AA)	**115,185**	33,424
Medium Low (A to BBB+)	**310,129**	351,350
Medium (BBB to BBB-)	**33,793**	18,170
Not rated	**1,374**	2,119
	460,481	405,063

8. Property, Furniture, Equipment and Improvements, Net

Property, furniture, equipment and improvements are shown below:

Year ended December 31, 2018

	Property **US$ 000**	***Furniture and Equipment*** **US$ 000**	***Improvements*** **US$ 000**	***Vehicles*** **US$ 000**	***Total*** **US$ 000**
Cost					
At beginning of year	**6,500**	**979**	**1,484**	**93**	**9,056**
Additions	**-**	**119**	**-**	**113**	**232**
Reclassification	**-**	**375**	**-**	**-**	**375**
Disposal	**-**	**(1)**	**-**	**(42)**	**(43)**
At end of year	**6,500**	**1,472**	**1,484**	**164**	**9,620**
Accumulated depreciation and amortization					
At beginning of year	**416**	**455**	**1,253**	**66**	**2,190**
Depreciation and amortization for the year	**217**	**395**	**224**	**29**	**865**
Disposal	**-**	**-**	**-**	**(41)**	**(41)**
At end of year	**633**	**850**	**1,477**	**54**	**3,014**
Net balance	**5,867**	**622**	**7**	**110**	**6,606**

Year ended December 31, 2017

	Property	*Furniture and Equipment*	*Improvements*	*Vehicles*	*Total*
Cost					
At beginning of year	6,500	943	1,474	93	9,010
Additions	-	36	10	-	46
Reclassification		-			-
Disposal	-	-	-	-	-
At end of year	6,500	979	1,484	93	9,056
Accumulated depreciation and amortization					
At beginning of year	199	145	957	48	1,349
Depreciation and amortization	217	307	296	18	838
for the year	-	-	-	-	-
Disposal	-	-	-	-	-
At end of year	416	452	1,253	66	2,187
Net balance	6,084	527	231	27	6,869

9. Intangible Assets

Intangible assets are shown below:

Year ended December 31, 2018

	Software	***Work in Progress***	***Total***
	US$ 000	**US$ 000**	**US$ 000**
Cost			
At beginning of year	**6,715**	**913**	**7,628**
Additions	**1,003**	**1,251**	**2,254**
Reclassification	**363**	**(738)**	**(375)**
Disposal	**-**	**(126)**	**(126)**
At end of year	**8,081**	**1,300**	**9,381**
Accumulated depreciation and amortization			
At beginning of year	**3,719**	**-**	**3,719**
Depreciation and amortization for the year	**1,497**	**-**	**1,497**
At end of year	**5,216**	**-**	**5,216**
Net balance	**2,865**	**1,300**	**4,165**

Year ended December 31, 2017

	Software	*Work in Progress*	*Total*
	US$ 000	US$ 000	US$ 000
Cost			
At beginning of year	6,042	858	6,900
Additions	23	758	781
Reclassification	650	(650)	-
Disposal	-	(53)	(53)
At end of year	6,715	913	7,628
Accumulated depreciation and amortization			
At beginning of year	2,395	-	2,395
Depreciation and amortization for the year	1,324	-	1,324
At end of year	3,719	-	3,719
Net balance	2,996	913	3,909

10. Securities Sold Pending Settlement and Securities Purchased Pending Settlement

The Bank recognizes each sale and purchase of financial instruments on the trade date. At such date, the purchased instrument is recognized as an asset (securities sold pending settlement) and the instrument sold is recognized as a liability (securities purchased pending settlement). The settlement of the transaction generally occurs within three working days following the trade date. The period between the trade date and the settlement date varies depending on the type of financial instrument traded and the regulations in effect when the negotiation occurred.

Investments and other financial assets pending settlement amounted to US$171 (2017: US$728) for sales of investments and other financial assets and US$97(2017: US$16) for investment purchases and other financial assets.

11. Other Assets

Other assets are shown below:

	December 31,	
	2018	2017
	US$ 000	US$ 000
Accounts receivable	**2,751**	3,711
Accrued commissions	**16,411**	12,507
	19,162	16,218

12. Time Deposits with Banks and Due to Depositors

The annual interest rates in time deposits with banks and due to depositors are shown below:

	Year ended December 31,	
	2018	2017
	%	%
Deposits with banks:		
Interest rate range	**0.10% to 7.50%**	2.00% to 3.15%
Weighted average interest rate	**1.97%**	1.62%
Due to depositors:		
Non banks:		
Interest rate range	**0.10% to 11%**	0.30% to 12.50%
Weighted average interest rate	**2.41%**	3.38%

13. Borrowings

Outstanding lines of credit are as follows:

	December 31,	
	2018	2017
	US$ 000	US$ 000
Outstanding balance borrowings	**96,000**	-
	96,000	-

The movement of borrowings is detailed below for the purpose of reconciliation with the statement of cash flows:

	December 31,	
	2018	2017
	US$ 000	US$ 000
Balance at January 1	**-**	20,000
Proceeds	**96,000**	-
Repayments	**-**	(20,000)
Balance at December 31	**96,000**	-

In January 2018, Bank J. Safra Sarasin increased the facility in the form of a revolving line of credit from US$20,000 to US$28,000. The Bank may borrow, repay and re-borrow up to a maximum of US$28,000. Also, in 2018 Credit Suisse opened a revolving line of credit of US$75,000. Interest expense for the year was US$1,941 (2017: US$158). Borrowings are collateralized by a portfolio of investments.

	Year ended December 31,	
	2018	2017
	%	%
Borrowings		
Interest rate range	**2.68% to 3%**	1.46% to 1.72%
Weighted average interest rate	**2.68%**	1.59%

14. Share Capital

At December 31, 2018, the Bank's share capital is comprised of 20,000 (2017: 20,000), common shares issued and outstanding with a par value of US$1 (2017: US$1) each.

During the year ended December 31, 2018, the Bank declared and paid a dividend of US$46,500 (2017: US$40,500) respectively or US$2.325 per share (2017: US$2.025 per share).

15. Income Taxes

As of December 31, 2018 there was no income tax liability reflected in the financial statements, as there is no income tax imposed by the Government of The Commonwealth of The Bahamas. In accordance with the current tax regulations in Panama, the Branch is exempt from the payment of income taxes on profits derived from foreign operations. In addition, profits derived from interest earned on time deposits and interest earned from Panamanian Government securities is also exempt from the payment of income taxes.

There are no income taxes imposed on the Bank in the Commonwealth of The Bahamas. Value Added Tax (VAT) of 7.50% is paid on almost all local purchases, however all amounts paid can be reclaimed by filing an application with the Inland Revenue Department of the Commonwealth of the Bahamas, due to the classification of the Bank as zero rated for VAT.

16. Gain on Financial Instruments, Net

The net gain on financial instruments included in the statement of income is summarized as follows:

	Year ended December 31,	
	2018	2017
	US$ 000	US$ 000
Unrealized gain (loss) on securities at FVPL	**3,375**	(596)
Realized gain on securities at FVPL	**7,055**	(117)
Subtotal	**10,430**	(713)
Realized gain on financial assets at FVOCI in 2018 and on securities available-for-sale in 2017	**1,334**	26,025
	11,764	25,312

17. General and Administrative Expenses

	Year ended December 31, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Salaries and employee benefits		
Salaries	**3,057**	3,838
Social security	**281**	279
Employee benefits	**2,050**	3,366
Seniority premium and idemnity	**57**	78
Training	**282**	256
	5,727	7,817
Professional fees		
Inteligo SAB	**6,723**	5,899
Others	**1,487**	1,991
	8,210	7,890
Other expenses		
Repairs and maintenance	**1,141**	912
Communication and postage	**214**	214
Taxes and banking license fees	**171**	173
Electricity	**68**	61
Office supplies	**36**	38
Travel	**218**	190
Insurance	**256**	248
Other	**948**	2,000
	3,052	3,836

18. Commitments and Contingencies

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

a) Customer Credit

Stand-by letters of Credit and Credit Facilities
Letters of credit imply certain exposure to credit loss in the event of non-compliance of the customer, net of collateral guarantees securing these transactions. The Bank's credit policies and procedures to approve these commitments are similar to those for extending loan facilities.

It is the Management's opinion that the Bank will not incur any losses from these commitments on behalf of customers. These commitments are summarized below:

	December 31,	
	2018	2017
	US$ 000	US$ 000
Stand by letters of credit	**8,908**	7,471
Lines of credit to be disbursed	**34,179**	31,360

Consumer Credit – Visa

As of December 31, 2018, the Bank had outstanding revolving lines of credit available to its credit card customers for US$7,655 (2017: US$8,401). The unused portion of the total credit facility available amounted to approximately US$6,810 (2017: US$7,488). While these amounts represent the available lines of credit to customers, the Bank has not experienced and does not anticipate that all of its customers will use their entire available lines at any given point in time. The Bank generally has the right to increase, decrease, cancel, alter or amend the terms of these lines at any time.

b) Lease Agreements

The rental expense for 2018 amounted to US$28 (2017: US$28) and mainly includes costs related to the rental of office space in The Bahamas.

18. Commitments and Contingencies (continued)

c) Contingencies

Inteligo Bank Ltd. is involved in legal proceedings in the ordinary course of its banking operations. Inteligo Bank Ltd. has been named as a defendant in the following litigation matters, which seek a total recovery of approximately US$11 million:

- Lawsuit brought by the BVI liquidators of Fairfield Sentry Limited and Fairfield Sigma Limited (together, "the Fairfield Funds"), filed September 2, 2010; and
- Lawsuit brought by the U.S. trustee for the liquidation of Bernard L. Madoff Investment Securities LLC ("BLMIS"), filed October 6, 2011.

These lawsuits seek the return of certain redemption payments received by Inteligo Bank Ltd. as a result of investments in the Fairfield Funds. The Fairfield Funds were BVI funds that invested substantially all of their assets into BLMIS. Inteligo's redemption payments were less than its subscription payments. Inteligo believes that the liability risk associated with these cases is remote and, as such, we have not recognized a provision in regards to these litigation matters.

19. Commission Income

	December 31,	
	2018	2017
	US$ 000	US$ 000
Product management portfolio	**7,679**	4,623
Commission for purchase and sale of financial instruments	**3,273**	3,220
Operational commissions	**2,462**	2,312
Structure of notes	**15,488**	17,827
Custody fees	**4,069**	3,753
Subscription rates	**558**	1,200
	33,529	32,935

Administration services of trust assets and third-party securities generate several types of commission income including but not limited to: fees relating to trading of structured notes based on a certain spread over face value for each particular note, fund subscription and redemption fees when applicable, custody fees and portfolio management fees.

20. Balance and Transactions with Related Parties

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

	Directors and Key Management Personnel		*Related Companies*	
	2018	2017	**2018**	2017
	US$ 000	US$ 000	**US$ 000**	US$ 000
Assets				
Securities	**-**	**-**	**4,562**	4,996
Other assets	**33,159**	11,967	**-**	-
Interest receivables	**221**	145	**-**	-
Liabilities				
Demand deposits	**-**	**-**	**3,276**	3,807
Time deposits	**-**	**-**	**101,000**	600
Interest payable	**-**	**-**	**611**	4
Other liabilities	**-**	**-**	**-**	120
Interest income				
Loans	**-**	**-**	**607**	416
Interest expense:				
Deposits	**-**	**-**	**1,135**	22
Income from financial services and other items				
Commission income	**-**	**-**	**461**	250
General and administrative expenses				
Key management salaries	**354**	1,200	**-**	**-**
Professional fees	**-**	**-**	**6,723**	5,898
Commision expense	**-**	**-**	**18**	15

Transactions with related parties include mainly fixed-income security operations with coupon rates ranging from 5.25% to 8.5% (2017: 6.625% to 7.00%) and maturities or call schedules within the next ten years; as well demand and time deposits from related companies. In the case of time deposits, interest rates are in the range of 2.17% to 3.15% p.a. (2017: 3.5% to 6.75% p.a.) and maturities within the first semester of 2019. Demand deposits do not generate interest.

Furthermore, key management salaries are also shown in the table above; as well as various receivables from key management personnel.

21. Fair Value of Financial Instruments

The following assumptions, when practical, have been made by Management to estimate the fair value for each financial instrument's category in the statement of financial position:

a) Cash and deposits with banks/accrued interest receivable/demand deposits due to customers/accrued interest payable/other liabilities.

For the financial instruments described above, the carrying values approximate their fair value due to their short term nature.

b) Securities

For securities, the fair value is based on published market price quotations, quotes from electronic pricing systems, net asset value provided by fund administrators, quotations provided by banks and estimates based on internal models of valuation.

c) Loans

The fair value of the loan portfolio is determined by discounting the future cash flows using interest rates that represent: (i) current market rates, and (ii) future expected interest rates, for a term that takes into account the expected anticipated prepayments in the loan portfolio.

d) Demand and time deposits from customers

The fair value of these financial instruments was determined by discounting the future cash flows using interest rate that reflect: (i) current market rates, and (ii) future expected interest rates, for a term that represents the remaining life of these instruments.

The following table summarizes the carrying value and the fair value of the Bank's significant financial assets and liabilities.

	December 31,			
	2018		2017	
	Carrying Value US$ 000	**Fair Value US$ 000**	Carrying Value US$ 000	Fair Value US$ 000
Assets				
Cash and deposits with banks	**135,240**	**135,240**	114,534	114,534
Financial assets	**464,210**	**464,210**	364,465	364,465
Loans	**460,481**	**459,934**	405,063	407,602
	1,059,931	**1,059,384**	884,062	886,601
Liabilities				
Demand deposits	**290,554**	**290,554**	328,914	328,914
Time deposits	**482,855**	**477,932**	366,344	363,239
Borrowings	**96,000**	**95,932**	-	-
	869,409	**864,418**	695,258	692,153

(Amount expressed in thousands of US$ dollars)

21. 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:

Fair Value	**2018**	**Level 1**	**Level 2**	**Level 3**
Assets				
Loans	**459,934**	**-**	**459,934**	**-**
	459,934	**-**	**459,934**	**-**
Liabilities				
Demand deposits	**290,554**	**-**	**290,554**	**-**
Time deposits	**477,932**	**-**	**477,932**	**-**
Borrowings	**95,932**	**-**	**95,932**	**-**
	864,418	**-**	**864,418**	**-**

Fair Value	2017	Level 1	Level 2	Level 3
Assets				
Loans	407,602	-	407,602	-
	407,602	-	407,602	-
Liabilities				
Demand deposits	328,914	-	328,914	-
Time deposits	363,239	-	363,239	-
Borrowings	-	-	-	-
	692,153	-	692,153	-

22. Financial Risk Management

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

The Bank's Board of Directors is responsible for the establishment and monitoring of the risk administration policies for financial instruments. In order to manage and monitor the various risks the Bank is exposed to, the Board of Directors has created the Credit Committee, the Investment Committee, the Assets and Liabilities Committee, the Enterprise Risk Committee and the Audit Committee. These committees are engaged in managing these risks and in making periodic reviews. In addition, the Bank is subject to the regulations of The Central Bank of The Bahamas concerning the risks of liquidity, credit and levels of capitalization, among others.

22. Financial Risk Management (continued)

The significant risks identified by the Bank are credit, counterparty, liquidity, market risk, other market price and capital management which are described as follows:

a) Credit Risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	December 31,	
	2018	2017
	US$ 000	US$ 000
Deposits with banks	**135,231**	114,526
Financial assets	**464,210**	364,465
Loans	**460,481**	405,063
Securities sold pending settlement	**171**	728
Accrued interest receivable	**9,267**	8,100
Other assets	**19,161**	16,218
	1,088,521	909,100

To mitigate credit risk, the Bank's policies establish limits by country, industry, and debtor. The Committee appointed by the Board of Directors, periodically oversees the financial condition of debtors and issuers of financial instruments that involve risk for the Bank. To mitigate credit risk, the Bank's risk management policies establish the following:

- Financing granted by the Bank to its clients is within financing limits established by the Board of Directors, as well as within the requirements established by The Central Bank of The Bahamas and the Superintendence of Banks of Panama. Exposure limits are applied to individuals and economic groups.

- The Bank limits exposure by sector and geographic location.

Credit Policies

The credit policies of the Bank include a series of rules and measures which allow those persons involved in the credit process to have information on the procedures that must be followed to be in compliance with credit related functions. The Bank's view is that having comprehensive information when deciding to approve credit requests, is a key factor in making informed decisions and maintaining a healthy credit portfolio. All direct and indirect credits, as well as credit operations and guarantees classified as contingent assets are considered as part of the Bank's credit policy.

22. Financial Risk Management (continued)

Establishment of authorization limits:

- The Board of Directors establishes credit policies and can delegate its authority to approve loans. The Board of Directors also establishes the authorization limits of officers, establishes procedures to monitor compliance, and can delegate these responsibilities to the Credit Committee and the Audit Committee.

- The Board of Directors establishes the authorization structure for the approval and renewal of credit facilities. The Credit Committee is responsible for implementing of the policies approved by the Board.

- The Enterprise Risk Committee is responsible for risk management policies, including the establishment of authorization limits to approve and renew credit facilities, and establishment of limits for counterparty, geographic area and economic risk concentrations.

Concentration and Exposure Limits

The Bank defines limits according to prudential norms and guidelines established by The Central Bank of The Bahamas and the Superintendence of Banks of Panama. The limits considered are primarily individual exposures to related parties as well as economic sector and geographic concentrations.

As of December 31, 2018 the Bank was in compliance with all the Prudential Norms established by The Central Bank of The Bahamas. Among others, Prudential Norms require the Bank to maintain its base capital at a minimum of 5% of its total assets or 8% of its risk-weighted assets, as well as an exposure to related parties and single groups below 25% of total capital.

After the implementation of IFRS 9, The Central Bank of The Bahamas eliminate its general provision requirement. The Superintendence of Banks of Panama requires banks to establish a Dynamic Reserve of not less than 1.50% of the total loan portfolio of the Panama Branch classified in the standard category. Regulatory reserve by year-end 2018 amounts to US$4,567 (2017: US$6,562), which includes both the allowance for loan losses calculated in accordance with IFRS US$29 (2017: US$268) and the additional regulatory allowance US$4,567 (2017: US$6,294). Compliant with IFRS 9, the Bank reviews its loan portfolio on a quarterly basis and estimates its expected credit loss.

The following table analyzes the Bank's most significant financial instruments that are exposed to credit risk as of December 31:

22. Financial Risk Management (continued)

The Bank monitors the credit risk concentration by sector and geographic location. The analysis of credit risk concentration as of December 31 is shown below:

	Loans		Financial Assets		Deposits with Banks	
	2018	2017	**2018**	2017	**2018**	2017
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Concentration by sector:						
Corporate	**243,520**	265,970	**184,018**	122,875	**-**	-
Consumer	**216,961**	139,093	**-**	-	**-**	-
Others sectors	**-**	-	**280,192**	241,590	**135,231**	114,526
	460,481	405,063	**464,210**	364,465	**135,231**	114,526
Geographic concentration:						
Panama - off shore	**63,517**	60,397	**-**	-	**-**	4,169
Caribbean	**10,973**	13,146	**113,083**	101,356	**-**	12,285
United States of America	**1,400**	879	**173,282**	194,172	**-**	72,126
Europe	**28,663**	3,785	**123,202**	17,678	**-**	17,841
Peru	**340,711**	314,894	**42,251**	33,772	**-**	-
Others	**15,218**	11,962	**12,392**	17,487	**-**	8,105
	460,481	405,063	**464,210**	364,465	**-**	114,526

The geographic concentration is based on the debtor's location in the case of loans, and on the issuer's location in the case of securities. When evaluating credit risk, management considers the following:

Impairment of loans, financial assets and deposits with banks

Impairment of loans, financial assets and deposits with banks is determined based on the expected credit losses model as per IFRS 9.

As per IFRS 9, the Bank recorded an allowance for credit losses on deposits with banks for US$21, which is deducted from the respective assets.

Financial assets past due but not impaired

Defined as loans and investments where contractual interest or principal payments are past due but are not considered to be impaired because of the level of security / collateral available and the stage of collection of amounts owed to the Bank.

Renegotiated loans

Renegotiated loans are those for which a significant variation in the original credit terms has been formally documented, due to difficulties in the payment capacity of the debtor, and the result of the current assessment does not permit them to be classified as standard performing loans.
Impairment allowance

The Bank has established impairment allowance to cover expected credit losses on the loan and financial assets.

22. Financial Risk Management (continued)

Charge-off policy

The Bank periodically reviews its loan portfolio to identify those loans that need to be written-off due to their non-collectability and does so up to the amount not covered by the collateral. For unsecured consumer loans, write-offs are calculated based on the amount past due. In the case of secured loans, the write-off is calculated after considering the value of collateral held.

The Bank periodically analyzes the loan portfolio to identify required impairment provisions calculated as the difference between the carrying value and the realizable value of security or collateral held. Impairment allowances are computed individually for loans with significant risks and collectively for groups of loans with similar credit risk characteristics. The Bank also uses estimates to establish a general impairment allowance based on historical write-off rates. The methodology and assumptions used to make these estimates are reviewed periodically.

The Bank holds guarantees and security for certain loans granted, comprised primarily of customers' deposits and securities.

As at December 31, 2018, the Bank held as collateral on loans to customers primarily dollar deposits, equities, structured notes, debt instruments, among others, indistinctly.

b) Counterparty Risk

This is the risk that a counterparty does not comply with the settlement of a redemption, purchase or sale of securities.

Risk management policies establish counterparty limits that determine the maximum amount of net exposure to transactions not yet liquidated that the Bank is permitted to have with a given counterparty. The Assets and Liabilities Committee is responsible for identifying acceptable counterparties taking into consideration the counterparty's history with respect to the fulfillment of obligations, as well as other indications of it being able to comply with obligations in the future.

c) Liquidity and Financing Risk

This is the risk that the Bank cannot comply with all of its obligations because of, among other reasons, an unexpected withdrawal of funds by depositors, the deterioration of the quality of the loan portfolio, the devaluation of securities, the excessive concentration of liabilities from one particular source, a gap between assets and liabilities, a shortage of asset liquidity, or the mismatch of long-term asset financing with short-term liabilities. The Bank manages its liquidity resources to honor liabilities at maturity under normal contractual terms.

(Amount expressed in thousands of US$ dollars)

22. Financial Risk Management (continued)

Liquidity Risk Management

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

The Board of Directors has established liquidity levels as to the minimum amount of available funds required to comply with such requirements and the minimum level of inter-banking facilities and other loan facilities that should exist to cover unexpected withdrawals. The Bank holds a short-term asset portfolio, comprised of loans and liquid investments to ensure sufficient liquidity.

The Bank's financial assets include unlisted equity investments, which generally are illiquid. In addition, the Bank holds investments in unlisted closed and open-ended investments funds, which may be subject to redemption restrictions such as side pockets or redemption gates. As a result, the Bank may not be able to liquidate some of its investments in these instruments in due time in order to meet its liquidity requirements.

Exposure to Liquidity Risk

A primary measure of liquidity is the Bank's net liquidity margin.

The Bank's liquidity index which is calculated by dividing liquid assets by total deposits is shown below:

	December 31,	
	2018	2017
	%	%
At year end	**25%**	28%
Average for the year	**19%**	23%
Maximum during the year	**31%**	39%
Minimum during the year	**8%**	12%

The table below shows the undiscounted contractual cash flows of the Bank's significant financial instruments on the basis of the earliest possible contractual maturity at the reporting date. The expected cash flows of these instruments could differ significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

22. Financial Risk Management (continued)

	December 31, 2018						
	Total US$ 000	**Up to 1 Month US$ 000**	**1 to 3 Months US$ 000**	**3 to 12 Months US$ 000**	**1 to 5 Years US$ 000**	**More than 5 Years US$ 000**	**Without Maturity US$ 000**
Assets:							
Demand and time deposits	**135,240**	**10,000**	**-**	**40,000**	**10,324**	**-**	**74,916**
Financial assets	**346,616**	**-**	**-**	**1,050**	**510**	**560**	**344,496**
Securities available for sale	**117,594**	**-**	**-**	**-**	**57,511**	**54,735**	**5,348**
Loans	**460,481**	**16,652**	**51,735**	**265,534**	**125,855**	**705**	**-**
Total Assets	**1,059,931**	**26,652**	**51,735**	**306,584**	**194,200**	**56,000**	**424,760**
Liabilities:							
Deposits	**773,409**	**66,295**	**34,742**	**314,597**	**67,221**	**-**	**290,554**
Borrowings	**96,000**	**96,000**	**-**	**-**	**-**	**-**	**-**
Total Liabilities	**869,409**	**162,295**	**34,742**	**314,597**	**67,221**	**-**	**290,554**
Net liquidity gap	**190,522**	**(135,643)**	**16,993**	**(8,013)**	**126,979**	**56,000**	**134,206**

	December 31, 2017						
	Total US$ 000	Up to 1 Month US$ 000	1 to 3 Months US$ 000	3 to 12 Months US$ 000	1 to 5 Years US$ 000	More than 5 Years US$ 000	Without Maturity US$ 000
Assets:							
Demand and time deposits	114,526	-	-	13,427	10,395	-	90,704
Securities at fair value	8,576	-	92	2,263	1,255	3,022	1,944
Securities available-for-sale	355,889	-	-		43,526	15,967	296,396
Loans	405,063	14,762	36,285	284,204	69,003	809	-
Total Assets	884,054	14,762	36,377	299,894	124,179	19,798	389,044
Liabilities:							
Deposits	695,258	11,254	42,636	250,758	61,696	-	328,914
Borrowings	-	-	-	-	-	-	-
Total Liabilities	695,258	11,254	42,636	250,758	61,696	-	328,914
Net liquidity gap	188,796	3,508	(6,259)	49,136	62,483	19,798	60,130

(d) Market Risk

Market risk is the risk that changes in market prices, foreign exchange rates, interest rates and equity prices, as well as changes in net asset values of unlisted closed and open-ended investment funds, may affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

22. Financial Risk Management (continued)

Risk management policies provide for compliance limits by financial instrument, limits with respect to maximum loss amounts that trigger the settlement of positions that caused such loss; and the requirement that, except with the approval from the Board of Directors, substantially all assets and liabilities are denominated in United States dollars.

Market Risk Administration

The Board of Directors has determined that market risk should be monitored directly by the Enterprise Risk Committee which is comprised of members of the Board of Directors and executive personnel. This committee is responsible for developing policies to administer market risk. In addition, this committee is responsible for review and approval of policy implementation.

Cash flows and fair value interest rate risk

Cash flows and fair value interest rate risk are the risks of fluctuation of both the future cash flows and the value of a financial instrument due to changes in market interest rates.

The Bank establishes limits to interest rate risk and periodically, this exposure is monitored by the Risk Department and the Enterprise Risk Committee.

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

	December 31,2018						
	Up to 1 Month US$ 000	**1 to 3 Months US$ 000**	**3 to 12 Months US$ 000**	**1 to 5 Years US$ 000**	**More than 5 Years US$ 000**	**Without Interest Rate US$ 000**	**Total US$ 000**
Assets:							
Deposits with banks	**10,000**	**-**	**40,000**	**10,324**	**-**	**74,916**	**135,240**
Financial assets	**-**	**-**	**1,050**	**58,021**	**55,295**	**349,844**	**464,210**
Loans	**16,652**	**51,735**	**265,534**	**125,855**	**705**	**-**	**460,481**
Total Assets	**26,652**	**51,735**	**306,584**	**194,200**	**56,000**	**424,760**	**1,059,931**
Liabilities:							
Deposits	**66,295**	**34,742**	**314,597**	**67,221**	**-**	**290,554**	**773,409**
Borrowings	**96,000**	**-**	**-**	**-**	**-**	**-**	**96,000**
Total Liabilities	**162,295**	**34,742**	**314,597**	**67,221**	**-**	**290,554**	**869,409**
Net interest gap	**(135,643)**	**16,993**	**(8,013)**	**126,979**	**56,000**	**134,206**	**190,522**

22. Financial Risk Management (continued)

	December 31, 2017						
	Up to 1 Month US$ 000	**1 to 3 Months US$ 000**	**3 to 12 Months US$ 000**	**1 to 5 Years US$ 000**	**More than 5 Years US$ 000**	**Without Interest Rate US$ 000**	**Total US$ 000**
Assets:							
Deposits with banks	-	-	13,427	10,395	-	90,704	114,526
Securities	-	92	2,263	44,781	18,989	298,340	364,465
Loans	14,762	36,285	284,204	69,003	809	-	405,063
Total Assets	14,762	36,377	299,894	124,179	19,798	389,044	884,054
Liabilities:							
Deposits	11,254	42,636	250,758	61,696	-	328,914	695,258
Borrowings	-	-	-	-	-	-	-
Total Liabilities	11,254	42,636	250,758	61,696	-	328,914	695,258
Net interest gap	3,508	(6,259)	49,136	62,483	19,798	60,130	188,796

Exposure to Market Risk

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

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

As of December 31, 2018, the annual interest rates on deposits due to depositors ranged from 0.30% to 12.50% (2017: 0.30% to 12.50%).

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

The sensitivity analysis prepared by the Bank at the end of each reporting year measures the impact on the Bank's financial instruments from increases and decreases in market interest rates (assuming asymmetrical movement in yield curves with all other variables, in particular foreign currency rates, remaining constant) using a linear approach as shown below:

22. Financial Risk Management (continued)

	100bp Increase	100bp Decrease
2018	US$ 000	US$ 000
Loans	**(2,914)**	**2,971**
Financial assets	**4,827**	**(4,827)**
Deposits	**3,090**	**(2,909)**
	5,003	**(4,765)**

	100bp Increase	100bp Decrease
2017	US$ 000	US$ 000
Loans	(2,801)	2,860
Securities	(5,703)	5,703
Deposits	2,618	(2,638)
	(5,886)	5,925

The total impact shown above represents the net (gain)/loss impact on profit or loss.

Overall non-trading interest rate risk positions are managed by the Central Treasury Department, which uses investment securities, advances to banks, deposits with banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

Exchange rate risk

This is the risk that the value of a financial instrument changes as a consequence of fluctuations in foreign currency exchange rates, and other financial variables, as well as the market participants' reactions to political and economic events.
The table below summarizes the Bank's exposures to foreign currency exchange risk at December 31, 2018. Included in the table are the carrying amounts of the Bank's financial instruments, categorized by currency.

	December 31,			
	2018		2017	
	US$000		US$000	
	Euros	Soles	Euros	Soles
Assets:				
Deposits with banks	**11,596**	-	4,060	-
Financial assets	**3,393**	**5,348**	3,239	2,151
Total Assets	**14,989**	**5,348**	7,299	2,151
Liabilities:				
Demand deposits	**1,286**	-	2,177	-
Total Liabilities	**1,286**	-	2,177	-

(Amount expressed in thousands of US$ dollars)

22. Financial Risk Management (continued)

Furthermore, the Bank has exposure to a basket of other currencies as part of the portfolio of investments managed by PIMCO, for a net total of US$ 1,995(2017: US$2,975).

(e) Other Market Price Risk

Other market price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

The following table sets out the concentration of securities at the reporting date:

	December 31,	
	2018	2017
	%	%
Equity investments:		
Exchange traded equity investments	**4.66**	5.58
Unlisted private equity investments	**6.23**	2.30
Total equity investments	**10.89**	7.88
Mutual funds:		
Funds invested with fund managers[1]	**9.09**	4.84
Unlisted closed and open ended investments funds	**3.87**	6.37
Total mutual funds	**12.96**	11.21
Debt securities:		
Exchange traded debt securitites	**12.86**	16.84
Unlisted private debt securities	**5.49**	3.70
Total debt securities	**18.35**	20.54
Total investment assets	**42.20**	39.63

(1) Funds available with fund managers include cash and U.S. Treasury bills, as reported by fund managers at December 31, 2018.

Investment assets are placed in various industries. Some investments are placed in mutual funds which invest in particular sectors; other mutual funds, as well as equity investment vehicles, which invest in financial assets within certain risk profiles, regardless of the industry sector where they fall into.

(Amount expressed in thousands of US$ dollars)

22. Financial Risk Management (continued)

Securities are concentrated in the following industries:

	December 31,	
	2018	2017
	%	%
Equity investments:		
Banks / financial services	**3.55**	0.41
Pharmaceutical	**14.54**	12.99
Others (fishing, diversified, energy, basic materials, etc.)	**7.72**	2.70
Funds invested with fund managers	**-**	3.78
Mutual funds:		
Banks / financial services	**-**	3.48
Real Estate	**-**	1.13
Pharmaceutical	**1.47**	5.07
Others (diversified, technology, etc.)	**29.24**	18.60
Debt securities:		
Banks / financial services	**8.28**	6.21
Pharmaceutical	**9.99**	4.35
Others (mining, energy, basic materials, etc.)	**6.39**	7.58
Funds invested with fund managers	**18.82**	33.70
	100.00	100.00

(f) Operational Risk

Operational risk is the risk that losses may occur due to failure or weaknesses in the Bank’s internal processes, persons or systems; and external events such as those from legal and regulatory requirements

22. Financial Risk Management (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of the following standards:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where deemed effective.

The policies established by the Bank are supported by a program of periodic reviews undertaken by the Internal Audit Department. The results of the Internal Audit Department's reviews are discussed with the management of the business unit to which they relate, and summary reports are submitted to the Audit Committee and senior management of the Bank.

(g) Capital Management

The Bank's policies on capital management are to maintain a robust capital base, with the ability to sustain the Bank's future growth. The Bank recognizes the need to maintain a balance between returns to shareholders and the adequacy of capital required by regulatory entities. From January 2016 onwards, the Central Bank of Bahamas requires licensees to include a capital charge for operational risk equal to the three-year average gross income of the Bank multiplied by a factor of 0.15. This charge is multiplied by 12.5 to calculate the Operational Risk-Equivalent-Assets. Operational Risk-Equivalent-Assets at December 31, 2018 were US$113 (2017: US$112).

The Central Bank of The Bahamas requires the Bank to maintain capital of not less than 8% of its risk weighted assets. The Superintendence of Banks of Panama requires the Bank to comply with the regulatory requirements as set forth by the regulation applicable in the jurisdiction of its Parent Company. The Bank's capital ratio at December 31, 2018 was 25.48% (2017: 32.57%).

22. Financial Risk Management (continued)

	December 31,	
	2018	2017
	US$ 000	US$ 000
Total elegible capital	**216,012**	212,459
Total risk weighted assets	**847,868**	652,229
Capital adequacy ratio	**25.48%**	32.57%

23. Subsequent Event

The Bank has evaluated the impact of all subsequent events through March 30, 2019, which is the date that the financial statements were available to be issued and has determined that there were no additional events requiring adjustment.