Audited Financial Statements

Inteligo Bank Ltd.

Year ended December 31, 2017
with Independent Auditors' Report

CONTENTS

Building a better
working world

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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, 2017, 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, 2017, 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 *Auditor's 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 21, 2018

Inteligo Bank Ltd.
Statement of Financial Position
December 31, 2017

(Amounts expressed in thousands of US$ dollars)

Notes		**2017** **US$ 000**	2016 US$ 000
	ASSETS		
	Cash and deposit with banks		
	Cash	**8**	9
	Deposit with banks:		
	Demand deposits	**76,918**	134,303
	Time deposits	**37,608**	90,473
5		**114,534**	224,785
	Securities		
6, 22	Securities at fair value	**8,576**	2,053
6, 22	Securities available-for-sale	**355,889**	429,420
		364,465	431,473
7	Loans, net	**404,795**	496,580
		404,795	496,580
	Accrued interest receivable	**8,100**	10,010
8	Property, furniture, equipment and improvements	**6,869**	7,661
9	Intangible assets	**3,909**	4,505
10	Securities sold pending settlement	**728**	117
11	Other assets	**16,218**	12,647
		35,824	34,940
	TOTAL ASSETS	**919,618**	1,187,778

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

Inteligo Bank Ltd.
Statement of Financial Position (continued)
December 31, 2017

(Amounts expressed in thousands of US$ dollars)

Notes		2017 US$ 000	2016 US$ 000
	LIABILITIES AND SHAREHOLDER'S EQUITY		
	Liabilities		
	Deposits:		
12	Demand	**328,914**	441,826
	Time	**366,344**	519,465
		695,258	961,291
13	Borrowings	**-**	20,000
	Accrued interest payable	**4,887**	6,467
10	Securities bought pending settlement	**16**	15
	Other liabilities	**7,198**	5,547
		12,101	12,029
	Total liabilities	**707,359**	993,320
	Shareholder's Equity		
14	Share capital	**20,000**	20,000
	Unrealized gain on available for sale securities	**10,324**	10,169
	Regulatory reserve	**6,294**	6,294
	Retained earnings	**175,641**	157,995
	Total Shareholder's Equity	**212,259**	194,458
	TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**919,618**	1,187,778

Approved on behalf of the Board of Directors on March 21, 2018 by the following:

Roberto Hoyle
Director

Reynaldo Roisenvit
Director

Inteligo Bank Ltd.
Statement of Income
For the year ended
December 31, 2017

(Amounts expressed in thousands of US$ dollars)

Notes		**2017** **US$ 000**	2016 US$ 000
	Interest income:		
	Interest on loans	**24,958**	25,321
	Interest on securities	**16,892**	14,115
	Interest on deposits with banks	**1,087**	411
	Dividend income	**2,946**	5,207
	Total interest income	**45,883**	45,054
	Interest expense	**(15,936)**	(16,677)
	Net interest income	**29,947**	28,377
	Income (expense) from financial services and other items:		
16	Net (loss) gain on financial instruments, fair value	**(713)**	3,795
16	Net gain on financial instruments, available for sale	**26,025**	11,269
6	Impairment loss on securities available for sale	**(4,682)**	-
19	Commision income	**32,935**	31,223
	Commision and other expense	**(4,293)**	(3,741)
	Other income, net	**660**	223
	Total income from financial services and other items, net	**49,932**	42,769
	General and administrative expenses:		
17	Salaries and employee benefits	**7,817**	7,761
18	Rent	**28**	57
17	Professional fees	**7,890**	7,078
8,9	Depreciation and amortization	**2,162**	1,952
17	Other	**3,836**	3,304
	Total general and administrative expenses	**21,733**	20,152
15	**Net profit**	**58,146**	50,994

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

Inteligo Bank Ltd.
Statement of Comprehensive Income
For the year ended
December 31, 2017

(Amounts expressed in thousands of US$ dollars)

Notes		**2017** **US$ 000**	2016 US$ 000
	Net profit for the year	**58,146**	50,994
	Other comprehensive income:		
	Securities available-for-sale:		
	Net change in fair value	**6,618**	14,953
6, 15	Reclasification adjustments to the statement of income	**(6,463)**	(6,258)
	Net gain on securities available-for-sale	**155**	8,695
	Total comprehensive income for the year	**58,301**	59,689

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, 2017

(Amounts expressed in thousands of US$ dollars)

	Share Capital US$ 000	*Unrealized Gain on Available for Sale Securities US$ 000*	*Regulatory Reserve US$ 000*	*Retained Earnings US$ 000*	*Total Shareholder's Equity US$ 000*
At January 1, 2016	20,000	1,474	1,727	139,768	162,969
Net profit for the year	-	-	-	50,994	50,994
Other comprehensive income:					
Securities available-for-sale:					
Net change in fair value	-	14,953	-	-	14,953
Reclasification ajustments to the statement of income	-	(6,258)	-	-	(6,258)
Net gain on securities available-for-sale	-	8,695	-	50,994	59,689
Transactions with owners, recorded directly in equity:					
Dividends paid	-	-	-	(28,200)	(28,200)
Regulatory reserve	-	-	4,567	(4,567)	-
At December 31, 2016	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 paid	**-**	**-**	**-**	**(40,500)**	**(40,500)**
Regulatory reserve	**-**	**-**	**-**	**-**	**-**
At December 31, 2017	**20,000**	**10,324**	**6,294**	**175,641**	**212,259**

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

Inteligo Bank Ltd.
Statement of Cash Flows
For the year ended
December 31, 2017

(Amounts expressed in thousands of US$ dollars)

Notes		**2017** **US$ 000**	2016 US$ 000
	Cash flows from operating activities		
	Net profit	**58,146**	50,994
	Adjustments to reconcile net profit to net cash flows:		
8,9	Depreciation and amortization of furniture, equipment and improvements	**2,162**	1,952
	Net gain on financial instruments, available for sale	**(26,025)**	(11,269)
	Interest income	**(45,883)**	(45,054)
	Interest expense	**15,936**	16,677
	Operating results before working capital changes	**4,336**	13,300
	Securities at fair value	**(6,523)**	4,296
6	Impairment loss on securities available for sale	**4,682**	-
	Loans	**91,785**	(11,627)
	Deposits	**(266,033)**	173,482
	All other assets	**(4,182)**	711
	All other liabilities	**1,652**	2,090
	Net cash flows generated from operations	**(174,283)**	182,252
	Interest received	**47,794**	45,161
	Interest paid	**(17,516)**	(16,286)
	Net cash flows (used in) provided by operating activities	**(144,005)**	211,127
	Cash flows from investing activities		
	Deposits over 90 days	**26,171**	(50,000)
	Acquisition of securities available-for-sale	**(216,937)**	(231,207)
	Proceeds from sale of securities available-for-sale	**273,634**	129,957
	Redemption available-for-sale	**37,581**	-
	Securities available-for-sale	**750**	(2,082)
8	Purchase of furniture, equipment and improvements	**(46)**	(7,360)
9	Intangible assets	**(781)**	(541)
9	Disposal of assets	**53**	-
	Net cash flows provided by (used in) investing activities	**120,425**	(161,233)
	Cash flows from financing activities		
13	Repayment of borrowings	**(20,000)**	-
14	Dividends paid	**(40,500)**	(28,200)
	Net cash flows used in financing activities	**(60,500)**	(28,200)
	Net (decrease) increase in cash and cash equivalents	**(84,080)**	21,694
	Cash and cash equivalents at January 1	**174,785**	153,091
	Cash and cash equivalents at December 31	**90,705**	174,785

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. on August 1st, 2014, from Intercorp Peru, Ltd., its majority shareholder, as part of a corporate reorganization. Intercorp Financial Services Inc. is 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 21, 2018.

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 available-for-sale financial assets, trading securities and financial assets designated at fair value through profit or loss. 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 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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

The estimates and assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Loan impairment allowance and losses

The Bank reviews its loan portfolio at least monthly to determine if there is objective evidence of impairment in a loan or groups of loans which share similar credit risk characteristics.

The Bank seeks to use collateral, where possible, to mitigate its risk on financial assets. The fair value and the total amount disbursed do not exceed 60% of the market value of the investment portfolio given as guarantee. If the collateral deteriorates, the Bank has the right to request a margin from the borrower or to proceed with the execution of the guarantee.

The Bank makes its best judgment as to whether there is any observable data indicating that there is a significant decrease in the recoverable amount of a portfolio of loans using estimates based on historical loss experience for loans with similar characteristics.

If there is objective evidence that an impairment loss on loans and receivables exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3. Basis of Preparation of Financial Statements (continued)

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans and historical loss experience for loans with similar credit risk characteristics.

When a loan is uncollectible, it is written off against the related allowance for loan losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized in the statement of income.

Management believes that the allowance for loan losses is adequate. The regulatory agencies in certain jurisdictions, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require additions to the allowance to be recognized based on their evaluation of information available at the time of their examinations. Regulatory loan loss allowance requirements that exceed the Bank's allowance for loan losses are treated as an appropriation of retained earnings.

(b) Impairment of securities

The Bank determines that securities are impaired when there has been a significant and prolonged decline in the fair value as compared to the carrying value. The determination of what significant or prolonged means requires judgment. The Bank evaluates, among other factors, historical share price movement and the extent to which the fair value of an investment has been reduced or lies below its cost.

(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.

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.

3. Basis of Preparation of Financial Statements (continued)

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 7. 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.

3.3 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 initial maturities of three months or less. As of December 31, 2017, cash and cash equivalents are represented by cash and bank deposits.

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 20 to the financial statements.

Financial assets

The Bank recognizes, in compliance to IAS 39, four classes of financial assets: Financial assets at fair value through profit or loss, loans and receivables, available-for-sale and held to maturity investments. The classification depends on the purpose for which the financial assets were acquired and on their intended use. Management determines the classification of its financial assets at initial recognition or acquisition, whichever comes first.

Further detail on each of the four categories is provided below.

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

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

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

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

4. Summary of Significant Accounting Policies (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments, originated or acquired, that are not quoted in an active market, not held for trading, and not designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. Loans and receivables are measured at amortized cost using the effective interest rate method.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity and that: do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. Held to maturity investments are measured at amortized cost. If an entity sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated, all of its other held-to-maturity investments must be reclassified as available-for-sale for the current and next two financial reporting years.

Financial liabilities

The Bank recognizes, in compliance to IAS 39, the following financial liabilities:

Amortized cost: All financial liabilities not classified at fair value through profit or loss are measured at amortized cost using the effective interest method.

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.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate is included as interest expenses in the statement of income.

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.

4. Summary of Significant Accounting Policies (continued)

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 under "Gain on financial instruments, net". 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 "Gain on financial instruments, fair value.

Initial recognition and measurement

The Bank uses a classification of financial asset or a financial liability depending on the purposes for which they were acquired and their characteristics. All financial assets or liabilities are accounted for at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of income.

All financial assets and liabilities are initially recognized on the trade date; that is the date in which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades; purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market.

Measurement subsequent to initial recognition

Subsequently, the Bank measures their financial assets and liabilities (including derivatives) at fair value, with the following exceptions:

Loans and receivables, held to maturity investments, and non-derivative financial liabilities, which are measured at amortized cost using the effective interest method.

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

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 available-for-sale 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.

4. Summary of Significant Accounting Policies (continued)

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.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealized gains or losses recognized in the Statement of Comprehensive Income and credited in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in gain (loss) on financial instruments, available-for-sale, or the investment is determined to be impaired, and the cumulative loss is reclassified from the available for sale reserve to the statement of income as an impairment loss on securities available-for-sale.Interest earned for holding available-for-sale financial assets is reported as interest income using the effective interest rate method.

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.

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

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 Comission Income in the statement of income.

4. Summary of Significant Accounting Policies (continued)

Dividend income

Dividend income (including that from available-for-sale investments) is recognized when it is received.

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 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 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Implementation strategy:
The net effect of the implementation of IFRS 9 represents a net increase in retained earnings of US$ 8,782; that takes into account the following:

- An increase of US$ 9,896 related to classification and measurement effects, not considering impairments.
- A decrease of US$ 1,114 related to impairment estimations as explained in the *Transition and Impact Evaluation* section below.

The estimates above are preliminary, and the impact of the adoption of IFRS 9 on January 1st, 2018 could be revised prior to the release of the first-quarter 2018 unaudited financial statements due to any of the following, or other reasons:

- A review of internal and/or accounting processes after consolidation.
- Changes on the models used to estimate Expected Credit Losses and
- New accounting policies, judgments or estimation techniques employed.

4. Summary of Significant Accounting Policies (continued)

The significant impacts on the adoption of IFRS 9 are as follows:

Classification and Measurement:
The new standard requires the measurement of assets according to the business model for which the assets are included in the investment portfolio, as well as the specific cash flow characteristics of each asset.

The three categories for the classification of financial assets are as follows:

a) Amortized cost (AC): In order to be measured at amortized cost, an asset must comply with the following:
    a. The business model for the asset must have as its primary objective to obtain contractual cash flows as established in the asset´s prospectus.
    b. The contractual terms in the abovementioned prospectus determine specific dates for the cash flows, which pertain only to principal and interest payments for the balance outstanding at each payment date.

b) Fair value through other comprehensive income (FVTOCI): In order to be measured at fair-value-through-other-comprehensive-income an asset must comply with the following:
    a. The business model for the asset establishes that the objective for maintaining this asset as part of the portfolio is to collect contractual cash flows over time, sell these assets and,

    b. The contractual terms for the asset determine specific dates for the cash flows, which pertain only to principal and interest payments for the balance outstanding at each payment date.

    During initial recognition and measurement of FVTOCI assets, the Bank may choose to irrevocably account for changes in the fair value of some or all of these assets through other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. IFRS 9 provides for equity investments to be classified under the FVTOCI category without recycling the sale proceeds through the profit and loss statement when those equity investments are considered strategic and thus not intended for sale in the short or medium term.

c) Fair value though profit and loss (FVTPL): All assets not included under the previous categories are included in this category.

4. Summary of Significant Accounting Policies (continued)

The implementation of IFRS 9 effectively eliminates all of the categories present in IAS 39: held-to-maturity, held-for-trading and available-for-sale.

Business Model analysis:
The Bank conducted a thorough analysis of the assets in its portfolio of investments and determined investments are either held in order to generate returns as part of the income strategy or are held to provide liquidity to clients and thus provide an adequate support to fee income by allowing for portfolios to be rebalanced more adequately.

In order to be aligned to the needs of both the investment and private wealth businesses, two business models were implemented:

a) Income generation:
   a. The main objective of the portfolio is the generation of income while avoiding increases in credit risk that could lead to losses due to the impairment of assets.
   b. An income target is established on an annual basis.
   c. The portfolio is subject to credit and interest rate risk. The first is mitigated through careful follow-up of the assets; the second is measured and controlled through the duration of the portfolio. A target duration is established annually by the Investment Committee and monitored by the Risk Department.
   d. The annual rotation of the portfolio should not exceed two times per year.
   e. Results are reported on a monthly basis to the Board of Directors.
   f. Assets in the income generation portfolio will be classified as FVTOCI for IFRS 9 purposes.

b) Trading:
   a. The main objective of the portfolio is to allow the Bank to act as a market-maker and intermediary to clients for some of the assets recommended by it. The Bank provides liquidity for these operations by the purchase and/or sale of minor amounts of securities to/from clients.
   b. The size of the portfolio will be determined by the Bank's Investment Committee each year. The portfolio must not incur material losses due to this market-making role.
   c. The portfolio is subject to credit and market risk. The first is mitigated through careful follow-up of the assets; the second is mitigated through daily monitoring and selling of loss-generating assets.
   d. The annual rotation of the portfolio is expected to exceed two times per year.
   e. Assets in the trading portfolio will be classified as FVTPL for IFRS 9 purposes.

4. Summary of Significant Accounting Policies (continued)

Effects of the Implementation
The effects for each of the previous IAS 39 categories, after reclassification to IFRS 9 compliant categories is as follows:

a) Securities available-for-sale:
   a. Most equity positions were reclassified to FVTPL, except for three specific positions deemed strategic and thus reclassified to FVTOCI.
   b. Fixed income positions were reclassified to FVTOCI, unless they were part of a third-party-administered portfolio, in which case they were reclassified to FVTPL.
   c. Mutual funds, hedge funds and third-party-administered portfolios were reclassified to FVTPL.

b) Securities held-for-trading:
   a. Fixed income, mutual funds and structured product positions were classified as FVTPL.
   b. Hedge derivative positions that were reclassified from available-for-sale into held-for-trading under IAS 39 are now included under the third-party-administered portfolios that have been classified as FVTPL.

c) Loans and deposits measured at amortized cost under IAS 39 will continue to be measured at amortized cost under IFRS 9.

Impairment of Financial Assets
The implementation of IFRS 9 effectively replaces the concept of incurred losses, as defined by IAS 39 with the concept of Expected Credit Loss (ECL). The ECL is calculated for all the assets in the portfolio that are not measured on a FVTPL basis.

The Bank uses an impairment model comprehensive of the concept of Expected Credit Loss for fixed income securities and a group of equities, not measured at. FVTPL.

Calculation of Expected Credit Loss (ECL):
   a. Low credit risk: The Bank considers as low credit risk – Stage 1 –an instrument with an investment-grade credit rating as determined by an international ratings agency or its local equivalent for local ratings.
   b. Staging: There are three levels of allowance for the impairment of investments:

      i. Stage 1: Financial instruments that have not undergone significant impairments from their initial recognition. ECL is calculated considering a 12 month timeframe.
      ii. Stage 2: Financial instruments that have been significantly impaired since their initial recognition, albeit without objective evidence present. The ECL is calculated for the remaining lifetime of the asset.

4. Summary of Significant Accounting Policies (continued)

iii. Stage 3: Financial instruments in default, where an objective evidence of impairment is present. The ECL is calculated for the remaining lifetime of the asset.

c. Stage allocation criteria: The following criteria are used to determine stage allocation subsequent to initial recognition:

Low Credit Risk (LCR) criteria: LCR criteria is used for investment grade securities. In this sense, an investment remains classified as Stage 1 if movements in its credit rating remain within the investment-grade spectrum.

Qualitative Criteria (QC): At the end of every quarter, Management will assess potential risk signals and issuer behavior to determine if a transition into lower/higher stages is justified.

Calculation of the Probability of Default (PD): Transition matrices will be used in order to determine the probability of default.

For Stage 1 instruments, the PD will be calculated as the cumulative, one-year PD. For Stages 2 and 3, the PD is calculated as the cumulative probability of default for the remaining life of the asset.

Calculation of the Loss Given Default (LGD): For issues classified as Stage 1 or 2 at the reporting date, the Recovery Rate (RR) matrix published by an accredited international rating agency will be used to determine the severity of the expected loss.

For issues classified as Stage 3, an evaluation by Management will determine the LGD based on the recovery procedures already underway.

Calculation of the Exposure at Default (EAD): For Stage 1, the EAD is calculated as the amortized cost of the asset, using the original effective interest rate. For Stage 2, the EAD is complemented by a default calculation at each of the years remaining in the lifetime of the asset. Finally, for Stage 3 securities, the EAD is the amortized cost at the date of default.

Expected Credit Loss (ECL): The expected credit loss for any given instrument is calculated as the product of the three risk parameters detailed above and the appropriate discount rate.

4. Summary of Significant Accounting Policies (continued)

Impairment of Credit Assets:
The definitions being the same as for the impairment of financial assets, the Bank has determined that every credit disbursed must be assigned an initial impairment stage in order to be able to identify the relative increase/decrease in credit risk from inception to date.

All credit operations are initially recognized as Stage 1. The following criteria are used to determine stage allocation subsequent to initial recognition:

> *Low Credit Risk (LCR) criteria:* LCR criteria is used for low and mid-low credit operations. In this sense, a credit asset remains classified as Stage 1 if movements in its credit rating remain within the mid-low risk spectrum as defined by Management.
>
> *Qualitative Criteria (QC):* Management will periodically assess potential risk signals and debtor behavior to determine if a transition into lower/higher stages is justified.

Calculation of the Probability of Default (PD): As with financial assets, transition matrices will be used in order to determine the probability of default.

For Stage 1 instruments, the PD must be calculated as the cumulative, one-year PD, using the cumulative values of the adequate, designated matrix. For Stages 2 and 3, the PD is calculated as the cumulative probability of default for the remaining life of the asset.

Calculation of Loss Given Default (LGD): For credit operations classified as Stage 1 or 2 at the reporting date, a stressed version of the Recovery Rate (RR) matrix published by the Banks´ regulators will be used to determine the severity of the expected loss.

For credit operations classified as Stage 3, an evaluation by Management will determine the LGD based on the recovery procedures already underway.

Calculation of Exposure at Default (EAD): For Stage 1, the EAD is calculated as the amortized cost of the asset, using the original effective interest rate. For Stage 2, the EAD is complemented by a default calculation at each of the years remaining in the lifetime of the asset. Finally, for Stage 3 securities, the EAD is the amortized cost at the date of default.

Calculation of the Expected Credit Loss (ECL): The expected credit loss for any given instrument is calculated as the product of the three risk parameters detailed above and the appropriate discount rate.

(Amount expressed in thousands of US$ dollars)

4. Summary of Significant Accounting Policies (continued)

Impairment of Other Financial Assets
The Bank has conducted a thorough analysis of the assets classified as Other Financial Assets in the Statement of Financial Position and determined that there are no assets that require impairment at this time.

Expected future conditions:
The Bank has incorporated all the available relevant information on future conditions in its analysis of expected credit losses both for financial and credit assets.

Impact evaluation:
A group of securities, previously part of the available-for-sale portfolio, were reclassified to the Fair Value through Profit & Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI) portfolios, respectively. The amounts reclassified as of January 1, 2018 are as follows:

a) From available-for-sale to FVTPL: US$ 294,246
b) From available-for-sale to FVOCI: US$ 61,643

Furthermore, all of the held-for-trading portfolio was reclassified to FVTPL:

From held-for-trading to fair-value-through-profit-and-loss: US$ 8,576

All of the above being considered, the portfolio distribution as of January 1st, 2018 is as follows:

January 1, 2018	
Portfolio	Amount
FVTPL	302,822
FVTOCI	61,643
Total	364,465

The reclassification of securities from the available-for-sale portfolio to the FVTOCI portfolio had a positive effect of US$ 9,896 on retained earnings. Furthermore, the

Expected Credit Loss (ECL) simulation on the FVTOCI portfolio, yielded a result of (US$1,114) representing 0.1% of assets at year-end 2017. A provision for the ECL has been established as an appropriation from retained earnings.

4. Summary of Significant Accounting Policies (continued)

The Bank conducted an analysis on the probability of default for credit operations included as assets in the Balance Sheet. The result of this analysis yielded a lower ECL than that implied by the current provision. However, in thorough application of the principle of conservationism, the Bank has decided to maintain its provision for credit losses at the current level (US$ 268), until the effect of the implementation of IFRS 9 can be further assessed throughout the year.

Transition:
The Bank will make use of the exception to the norm that waives the need to re-express previous periods with respect to changes in the classification and measurement of assets and liabilities, comprehensive of impairment. Therefore, the differences in the carrying values of financial assets and liabilities as a consequence of the application of IFRS 9 will be recognized in the opening balance of shareholders equity on January 1st, 2018.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

Management has assessed the impact of the implementation of IFRS 15 for the Bank as of January 1st, 2018 and the impact on the financial statements is immaterial.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ’low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

4. Summary of Significant Accounting Policies (continued)

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. The Bank is currently evaluating the impact of adopting this standard.

5. Cash and Deposits with Banks

	December 31,	
	2017	2016
	US$ 000	US$ 000
Cash	**8**	9
Demand deposits with banks	**76,918**	134,303
Time deposits with banks	**37,608**	90,473
Cash and cash equivalents	**114,534**	224,785
Less: deposits over 90 days	**(23,829)**	(50,000)
	90,705	174,785

At December 31, 2017, the annual interest rates on demand and time deposits in US$ ranged from 0.10% to 6.75% (2016: 0.39% to 6.04%) with maturities of three years or less.

All counterparts are at least BBB- credit rating.

6. Securities

Securities are summarized as follows:

Securities at Fair Value

	December 31,	
	2017	2016
	US$ 000	US$ 000
Corporate bonds	**3,948**	1,377
Equity shares and mutual funds	**723**	348
Structured products	**2,683**	135
Derivatives financial instruments	**1,222**	193
	8,576	2,053

6. Securities (continued)

The portfolio of securities detailed above is comprised mainly of a portfolio of bonds (US$3,948 Book Value), structured products (US$2,683 Book Value) and mutual funds (US$723 Book Value), bought with the purpose of providing liquidity to clients invested in those assets; as well as the derivative financial instruments that are part of a portfolio of investments managed by PIMCO.

During 2017 the Bank bought securities at fair value for US$54,412 (2016: US$46,414), sold securities for US$48,550 (2016: US$52,902) and redeemed securities for US$375 (2016: US$80). Revaluation and realized gain accounted for US$ 151 (2016: -US$ 76) and –US$ 144 (2016: US$ 206) respectively.

Securities Available-for-Sale

The portfolio and maturity analysis of securities available-for-sale is shown below:

	2017					
	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 administrated portfolio	**(5,210)**	**74,714**	**26,689**	**20,846**	**18,301**	**135,340**
Corporate bonds	**-**	**43,526**	**7,680**	**8,286**	**-**	**59,492**
	(5,210)	**118,240**	**34,369**	**29,132**	**179,358**	**355,889**

	2016					
	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	-	-	-	-	60,710	60,710
Mutual funds	-	-	-	-	145,031	145,031
Third party administrated portfolio	20,093	36,432	11,414	23,562	35,701	127,202
Corporate bonds	25,593	53,917	12,005	4,962	-	96,477
	45,686	90,349	23,419	28,524	241,442	429,420

The third party administrated portfolio is composed of 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 (2016: corporate bonds US$57,726, US government bonds US$26,224, collateralized mortgage obligations US$17,278, asset backed securities US$6,545, equity US$1,562, repos US$2,000, cash US$6,975 and mutual funds US$9,092).

6. Securities (continued)

During 2017, the Bank bought securities available-for-sale for US$216,937 (2016: US$231,207), sold securities for US$273,634 (2016: US$129,957) and redeemed securities for US$37,581 (2016: US$0). These numbers do not account for transactions carried out by the administrators of the portfolios managed by PIMCO, Second Curve and Armory Advisors LLC.

During 2017, there were impairment losses for securities available-for-sale for US$ 4,682 (2016: US$0). Impairments during 2017 were related to investments in mutual funds, mainly in both investment grade and high yield fixed income; as well in diversified private equity funds.

The coupon rate on fixed-rate bonds classified as available-for-sale ranged from 5.25% to 11% p.a. (2016: 5.375% 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% p.a. (2016: 4% to 4.90% p.a.)

Securities for both the available-for-sale and fair value portfolios, classified by type of interest, are shown below:

	December 31,	
	2017	2016
	US$ 000	US$ 000
Fixed rate	**51,276**	72,608
Floating Rate	**12,165**	25,000
Equity (non-interest bearing)	**58,711**	60,710
Structured Products	**2,683**	381
Funds (mixed)	**103,068**	145,378
Third party administered funds (mixed)	**136,562**	127,396
	364,465	431,473

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.

6. Securities (continued)

	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**

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	US$000	US$000	US$000	US$000
Securities at fair value				
Corporate bonds	1,130	247	-	1,377
Equity shares and mutual funds	-	-	348	348
Structured products	-	135	-	135
Derivatives financial instruments	-	193	-	193
	1,130	575	348	2,053
Securities available for sale				
Equity shares	40,370	-	20,340	60,710
Mutual funds	6,448	61,377	77,206	145,031
Third party administrated portfolio	-	127,202	-	127,202
Corporate bonds	45,232	51,245	-	96,477
	92,050	239,824	97,546	429,420

The fair value of the investments 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 shares 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.

(Amount expressed in thousands of US$ dollars)

6. Securities (continued)

- 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.

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$2,837
		WACC	8%	500 basis points increase in the WACC would result in decrease in fair value by US$5,009 500 basis points decrease in the WACC would result in increase in fair value by US$7,306
Mutual Funds and Investment Participations	DCF Method	Discount Rate	According to Credit Risk	500 basis points increase in the discount rate would result in decrease in fair value by US$2,194 500 basis points decrease in the discount rate would result in increase in fair value by US$2,877
	Comparable multiples	Price/Sales Ratio	According to Market Sector	10% increase (decrease) in the sales forecast would result in increase (decrease) in fair value by US$333

6. Securities (continued)

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

	2017		2016	
	Securities at Fair Value US$000	Securities Available for Sale US$000	Securities at Fair Value US$000	Securities Available for Sale US$000
Balance at January 1	**348**	**97,547**	(1,950)	114,724
Purchases	**445**	**33,747**	348	34,779
Settlements	**(72)**	**(52,167)**	1,950	(45,097)
Net change in value fair during the year	**2**	**2,624**	-	(6,859)
Impairments	**-**	**(2,750)**	-	-
Balance at December 31	**723**	**79,001**	348	97,547

The distribution by industry for level 3 securities classified as held-for trading is as follows:

	2017		2016	
	Diversified US$000	**Total** US$000	Diversified US$000	Total US$000
Balance at January 1	**348**	**348**	348	348
Purchases	**445**	**445**	-	-
Settlements / distributions	**(72)**	**(72)**	-	-
Total gain recognised in P&L	**2**	**2**	-	-
Balance at December 31	**723**	**723**	348	348

6. Securities (continued)

The distribution by industry for level 3 securities classified as available-for-sale is as follows:

	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**
Reclassifications	-	-	-	-	-
Impairments	-	-	-	(2,750)	**(2,750)**
Balance at December 31	**39,628**	**11,518**	**3,453**	**24,402**	**79,001**

			2016		
	Pharmaceutical	Financial Services	Real Estate	Diversified	Total
	US$000	US$000	US$000	US$000	US$000
Balance at January 1	68,634	13,047	-	33,043	114,724
Purchases	11,429	1,975	-	21,375	34,779
Settlements / distributions	(25,633)	(203)	-	(19,261)	(45,097)
Total (loss) recognised in P&L	(1,468)	(3,353)	-	(2,038)	(6,859)
Balance at December 31	52,962	11,466	-	33,119	97,547

6. Securities (continued)

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

	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**

	2016					
	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	-	-	7,685	-	-	7,685
AA+ to AA-	-	-	82	-	-	82
A+ to BBB-	-	-	172	3,173	-	3,345
Lower than BBB-	-	-	44,800	33,190	-	77,990
Unrated	60,710	145,378	74,656	61,492	135	342,371
	60,710	145,378	127,395	97,855	135	431,473

7. Loans, Net

The position of the loan portfolio is summarized below:

	December 31,	
	2017	2016
	US$ 000	US$ 000
Financial	**19,557**	42,442
Commercial	**20,648**	37,151
Industrial	**16,151**	24,023
Services	**86,732**	88,885
Construction and real estate	**98,656**	115,731
Fishing and agriculture	**24,226**	19,990
Consumer	**139,051**	169,075
Mortgages	**42**	362
	405,063	497,659
Less allowance for loan losses	**268**	1,079
	404,795	496,580

In addition to the allowance for loan losses, in compliance with the Central Bank of the Commonwealth of the Bahamas´ Supervisory and Regulatory Guidelines 2003-05, for the Management of Credit Risk; and 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$6,294 at December 2017 that is reported in Shareholder´s Equity.

At December 31, 2017, the annual interest rates on loans ranged from 1% to 13.5% (2016: 0.65% to 13.5%), and the weighted average interest rate was 5.12% (2016: 4.98%).

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

	December 31,	
	2017	2016
	US$ 000	US$ 000
Fixed rate	**250,438**	324,657
Variable rate (Libor or prime)	**154,625**	173,002
	405,063	497,659

Loans are secured as follows:

7. Loans, Net (continued)

	December 31,	
	2017	2016
	US$ 000	US$ 000
Cash	**237,601**	318,541
Securities	**147,275**	149,499
Others	**17,898**	27,883
Without collateral	**2,289**	1,736
	405,063	497,659

Changes in the allowance for loan losses are summarized below:

	December 31,	
	2017	2016
	US$ 000	US$ 000
Balance at January 1	**1,079**	1,079
Decrease charged to expense	**(811)**	-
Balance at December 31	**268**	1,079

At December 31, 2017, there were no past due, non-accruing, impaired or renegotiated loans.

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:

	December 31,	
	2017	2016
	US$ 000	US$ 000
Internal (equivalent) risk rating:		
Low (AAA to BBB)	**221,577**	297,250
Medium (BB+ to B-)	**181,367**	197,142
Not rated	**2,119**	3,267
	405,063	497,659

8. Property, Furniture, Equipment and Improvements, Net

Property, furniture, equipment and improvements are shown below:

December 31, 2017

	Property **US$ 000**	***Furniture and Equipment*** **US$ 000**	***Improvements*** **US$ 000**	***Vehicles*** **US$ 000**	***Total*** **US$ 000**
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 for the year	**217**	**307**	**296**	**18**	**838**
Disposal	**-**	**-**	**-**	**-**	**-**
At end of year	**416**	**452**	**1,253**	**66**	**2,187**
Net balance	**6,084**	**527**	**231**	**27**	**6,869**

December 31, 2016

	Property US$ 000	*Furniture and Equipment* US$ 000	*Improvements* US$ 000	*Vehicles* US$ 000	*Total* US$ 000
Cost					
At beginning of year	-	562	1,474	93	2,129
Additions	6,500	860	-	-	7,360
Disposal	-	(479)	-	-	(479)
At end of year	6,500	943	1,474	93	9,010
Accumulated depreciation and amortization					
At beginning of year	-	419	662	29	1,110
Depreciation and amortization for the year	199	205	295	19	718
Disposal	-	(479)	-	-	(479)
At end of year	199	145	957	48	1,349
Net balance	6,301	798	517	45	7,661

On January 4, 2016, the Bank acquired floors 47 and 48 of the PH Torre Financial Center building, for a price of US$6,500. This addition is detailed above under the heading *Property*. Upon signing the contract, Inteligo Bank received a rebate equivalent to the amount outstanding at December 31, 2015 of the rent paid in advance for the period of five years starting on July 1st 2013; for a total of US$1,311. The net cash disbursement generated by this operation was therefore US$5,189.

9. Intangible Assets

Intangible assets are shown below:

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**

December 31, 2016

	Software	*Work in Progress*	*Total*
	US$ 000	US$ 000	US$ 000
Cost			
At beginning of year	6,049	350	6,399
Additions	33	508	541
Disposal	(40)	-	(40)
At end of year	6,042	858	6,900
Accumulated depreciation and amortization			
At beginning of year	1,201	-	1,201
Depreciation and amortization for the year	1,234	-	1,234
Disposal	(40)	-	(40)
At end of year	2,395	-	2,395
Net balance	3,647	858	4,505

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$728 (2016: US$117) for sales of investments and other financial assets and US$16 (2016: US$15) for investment purchases and other financial assets.

11. Other Assets

Other assets are shown below:

	December 31,	
	2017	2016
	US$ 000	US$ 000
Accounts receivable	**3,711**	1,262
Accrued commissions	**12,507**	11,385
	16,218	12,647

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:

	December 31,	
	2017	2016
	%	%
Deposits with banks:		
Interest rate range	**2.00% to 3.15%**	0.00% to 1.35%
Weighted average interest rate	**1.62%**	1.05%
Due to depositors:		
Non banks:		
Interest rate range	**0.30% to 12.50%**	0.30% to 12.50%
Weighted average interest rate	**3.38%**	3.20%

13. Borrowings

Outstanding lines of credit are as follows:

	December 31, **2017** US$ 000	December 31, 2016 US$ 000
Outstanding balance revolving line of credit	**-**	20,000
	-	20,000

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

	December 31, **2017** US$ 000	December 31, 2016 US$ 000
Balance at January 1	**20,000**	20,000
Proceeds	**-**	-
Repayments	**(20,000)**	-
Balance at December 31	**-**	20,000

In June 2015, Bank J. Safra Sarasin approved a facility in the form of a revolving line of credit for up to US$20,000 to the Bank that was fully paid in 2017. The Bank may borrow, repay and re-borrow up to a maximum of US$20,000. Interest expense for the year was US$158 (2016: US$237). Borrowings are collateralized by a portfolio of investments.

	December 31, **2017** %	December 31, 2016 %
Borrowings		
Interest rate range	**1.46% to 1.72%**	1.13% to 1.29%
Weighted average interest rate	**1.59%**	1.18%

14. Share Capital

At December 31, 2017, the Bank's share capital is comprised of 20,000 (2016: 20,000), common shares issued and outstanding with a par value of US$1 (2015: US$1) each.

During the year ended December 31, 2017, the Bank declared and paid a dividend of US$40,500 (2016: US$28,200) respectively or US$2.025 per share (2016: US$1.41 per share).

15. Income Taxes

As of December 31, 2017 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,	
	2017	2016
	US$ 000	US$ 000
Net unrealized (loss) gain on securities at fair value	**(596)**	3,549
Net realized (loss) gain on securities at fair value	**(117)**	246
Net realized gain on securities available for sale	**26,025**	11,269
	25,312	15,064

17. General and Administrative Expenses

	Year ended December 31,	
	2017	2016
	US$ 000	US$ 000
Salaries and employee benefits		
Salaries	**3,838**	3,725
Social security	**279**	253
Employee benefits	**3,366**	3,430
Seniority premium and idemnity	**78**	94
Training	**256**	259
	7,817	7,761
Professional fees		
Inteligo SAB	**5,899**	4,800
Others	**1,991**	2,278
	7,890	7,078
Other expenses		
Repairs and maintenance	**912**	993
Communication and postage	**214**	142
Taxes and banking license fees	**173**	168
Electricity	**61**	59
Office supplies	**38**	14
Travel	**190**	189
Insurance	**248**	238
Other	**2,000**	1,501
	3,836	3,304

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,	
	2017	2016
	US$ 000	US$ 000
Stand by letters of credit	**6,920**	7,471
Lines of credit to be disbursed	**29,978**	31,360

b) Consumer Credit – Visa

As of December 31, 2017, the Bank had outstanding revolving lines of credit available to its credit card customers for US$8,401 (2016: US$8,108). The unused portion of the total credit facility available amounted to approximately US$7,488 (2016: US$7,166). 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.

c) Lease Agreements

On January 4, 2016, the Bank acquired floors 47 and 48 of the PH Torre Financial Center building, for a price of US$6,500.

Upon signing the contract, it received a rebate equivalent to the amount outstanding at December 31, 2015 of the rent paid in advance for the period of five years starting on July 1st 2013; for a total of US$1,311; effectively ending the lease contract for the abovementioned assets. The net cash disbursement for this operation, after applying the rebates, was therefore US$5,189.

18. Commitments and Contingencies (continued)

The rental expense for 2017 amounted to US$28 (2016: US$57) and mainly includes costs related to the rental of office space in The Bahamas.

d) 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

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. This type of income amounted to US$32,935 in 2017 (2016: US$31,223).

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*	
	2017	2016	**2017**	2016
	US$ 000	US$ 000	**US$ 000**	US$ 000
Assets				
Securities	**-**	-	**4,996**	35,247
Other assets	**11,967**	4,304	**-**	1,000
Interest receivables	**145**	96	**-**	35
Liabilities				
Demand deposits	**-**	-	**3,807**	10,071
Time deposits	**-**	-	**600**	2,640
Interest payable	**-**	-	**4**	30
Other liabilities	**-**	-	**120**	2
Interest income:				
Loans	**-**	59	**416**	171
Interest expense:				
Deposits	**-**	-	**22**	97
Income from financial services and other items:				
Commission income	**-**	-	**250**	270
General and administrative expenses				
Key management salaries	**1,200**	1,100	**-**	-
Professional fees	**-**	-	**5,898**	4,800
Commision expense	**-**	-	**15**	14

Transactions with related parties include mainly fixed-income securities with coupon rates ranging from 6.625% to 7.00% in 2017 (2016: 5.25% to 8.5%) and maturities or call schedules within the next fifteen years; as well demand and time deposits from related companies. In the case of time deposits, interest rates are of 0.90% p.a. (2016: 0.50% to 4.00% p.a.) and maturities within the first semester of 2018. 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 instruments 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. Unquoted equity securities classified as available-for-sale, whose fair value cannot be reliably measured are carried at cost.

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,			
	2017		2016	
	Carrying Value US$ 000	**Fair Value US$ 000**	Carrying Value US$ 000	Fair Value US$ 000
Assets				
Cash and deposits with banks	**114,534**	**114,534**	224,785	224,785
Securities	**364,465**	**364,465**	431,473	431,473
Loans	**405,063**	**407,602**	497,659	493,072
	884,062	**886,601**	1,153,917	1,149,330
Liabilities				
Demand deposits	**328,914**	**328,914**	441,826	441,826
Time deposits	**366,344**	**363,239**	519,465	515,575
Borrowings	**-**	**-**	20,000	19,981
	695,258	**692,153**	981,291	977,382

(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	**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**	**-**

Fair Value	2016	Level 1	Level 2	Level 3
Assets				
Loans	493,072	-	493,072	-
	493,072	-	493,072	-
Liabilities				
Demand deposits	441,826	-	441,826	-
Time deposits	515,575	-	515,575	-
Borrowings	19,981	-	19,981	-
	977,382	-	977,382	-

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 and Investment Committee, the Assets and Liabilities Committee, the Credit 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.

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,	
	2017	2016
	US$ 000	US$ 000
Deposits with banks	**114,526**	224,776
Securities	**364,465**	431,473
Loans	**405,063**	497,659
Securities sold pending settlement	**728**	117
Accrued interest receivable	**8,100**	10,010
Other assets	**16,218**	12,647
	909,100	1,176,682

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:

22. Financial Risk Management (continued)

- 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.

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 Credit 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.

22. Financial Risk Management (continued)

As of December 31, 2017 the Bank was in compliance with eight of the Prudential Norms established by The Central Bank of The Bahamas. The Bank expects to increase its liquidity from 19% to 20% of total deposits by the first quarter of 2018, as required 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.

The Central Bank of The Bahamas requires banks to have a general allowance for loan losses of not less than 1% of the total loan portfolio net of cash collateralized loans. During 2017 no adjustments were necessary to the amount of the general allowance (2016: US$4,567). Adjustments are recognized as an appropriation from retained earnings and reported in the equity section of the statement of financial position. This is accomplished by means of an appropriation and transfer from retained earnings. Additionally, 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. Regulatory reserve by year-end 2017 amounts to a total of US$6,562 (2016: US$7,373), which includes both the required total allowance for loan losses calculated in accordance with IFRS US$268 (2016: US$1,079) and the additional allowance US$6,294 (2016: US$6,294). Compliant with IAS 39 the Bank reviews its loan portfolio on a quarterly basis and estimates its potential credit loss to measure if the provision for loan losses is adequate.

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

	Loans		Securities		Deposits with Banks	
	2017	2016	**2017**	2016	**2017**	2016
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Gross amount	**405,063**	497,659	**364,465**	431,473	**114,526**	224,776
Allowance for loan losses	**(268)**	(1,079)	**-**	-	**-**	-
Carryng amount	**404,795**	496,580	**364,465**	431,473	**114,526**	224,776

22. Financial Risk Management (continued)

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

	Loans		Securities		Deposits with Banks	
	2017	2016	**2017**	2016	**2017**	2016
	US$ 000	US$ 000	**US$ 000**	US$ 000	**US$ 000**	US$ 000
Concentration by sector:						
Corporate	**265,970**	328,223	**122,875**	250,075	**-**	-
Consumer	**139,093**	169,436	**-**	-	**-**	-
Others sectors	**-**	-	**241,590**	181,398	**114,526**	224,776
	405,063	497,659	**364,465**	431,473	**114,526**	224,776
Geographic concentration:						
Panama - off shore	**60,397**	78,597	**-**	-	**4,169**	1,196
Caribbean	**13,146**	17,712	**101,356**	110,239	**12,285**	41
United States of America	**879**	500	**194,172**	204,059	**72,126**	176,954
Europe	**3,785**	869	**17,678**	3,219	**17,841**	31,595
Peru	**314,894**	383,917	**33,772**	77,985	**-**	-
Others	**11,962**	16,064	**17,487**	35,971	**8,105**	14,999
	405,063	497,659	**364,465**	431,473	**114,526**	224,785

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, securities and deposits with banks

Impairment of loans, securities and deposits with banks is determined by comparing the carrying value of the asset with its estimated recoverable amount.

Financial assets past due but not impaired

Defined as loans and securities 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.

22. Financial Risk Management (continued)

Impairment allowance

The Bank has established impairment allowance to cover losses incurred on the loan and security portfolios.

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, securities and real-estate.

As at December 31, 2017, 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.

(Amount expressed in thousands of US$ dollars)

22. Financial Risk Management (continued)

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.

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,	
	2017	2016
	%	%
At year end	**54%**	53%
Average for the year	**50%**	43%
Maximum during the year	**55%**	53%
Minimum during the year	**45%**	29%

22. Financial Risk Management (continued)

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.

	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**

	2016						
	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	224,776	224,776	-	-	-	-	-
Securities at fair value	2,053	135	-	-	-	1,377	541
Securities available for sale	429,420	14,494	15,196	16,212	-	131,431	252,087
Loans	497,659	18,595	50,807	378,947	48,117	1,193	-
Total Assets	1,153,908	258,000	66,003	395,159	48,117	134,001	252,628
Liabilities:							
Deposits	961,291	16,509	72,168	368,395	61,699	694	441,826
Borrowings	20,000	-	-	20,000	-	-	-
Total Liabilities	981,291	16,509	72,168	388,395	61,699	694	441,826
Net liquidity gap	172,617	241,491	(6,165)	6,764	(13,582)	133,307	(189,198)

22. Financial Risk Management (continued)

(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.

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 Credit 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 Risk Committee.

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

22. Financial Risk Management (continued)

	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**
Assets:						
Deposits with banks	-	-	13,427	10,395	-	90,704
Securities	-	92	2,263	44,781	18,989	298,340
Loans	14,762	36,285	284,204	69,003	809	-
Total Assets	14,762	36,377	299,894	124,179	19,798	389,044
Liabilities:						
Deposits	11,254	42,636	250,758	61,696	-	328,914
Borrowings	-	-	-	-	-	-
Total Liabilities	11,254	42,636	250,758	61,696	-	328,914
Net interest gap	3,508	(6,259)	49,136	62,483	19,798	60,130

	2016					
	Up to 1 Month US$ 000	1 to 3 Months US$ 000	3 to 12 Months US$ 000	1 year or more US$ 000	More than 5 Years US$ 000	Without Interest Rate US$ 000
Assets:						
Deposits with banks	224,776	-	-	-	-	-
Securities	14,629	15,196	16,212	-	132,808	252,628
Loans	18,595	50,807	378,947	48,117	1,193	-
Total Assets	258,000	66,003	395,159	48,117	134,001	252,628
Liabilities:						
Deposits	16,509	72,168	368,395	61,699	694	441,826
Borrowings	-	-	20,000	-	-	-
Total Liabilities	16,509	72,168	388,395	61,699	694	441,826
Net interest gap	241,491	(6,165)	6,764	(13,582)	133,307	(189,198)

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.

22. Financial Risk Management (continued)

As of December 31, 2017, the annual interest rates on deposits due to depositors ranged from 0.30% to 12.50% (2016: 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 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:

	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**

	100bp Increase	100bp Decrease
2016	US$ 000	US$ 000
Loans	(3,215)	3,226
Securities	(4,603)	4,603
Deposits	3,449	(3,463)
	(4,369)	4,366

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.

22. Financial Risk Management (continued)

The table below summarizes the Bank's exposures to foreign currency exchange risk at December 31, 2017. Included in the table are the carrying amounts of the Bank's financial instruments, categorized by currency.

	December 31,			
	2017		2016	
	US$000		US$000	
Assets:	Euros	Soles	Euros	Soles
Deposits with banks	**4,060**	**-**	1,789	-
Securities	**3,239**	**2,151**	294	2,144
Total Assets	**7,299**	**2,151**	2,083	2,144
Liabilities:				
Demand deposits	**2,177**	**-**	1,592	-
Total Liabilities	**2,177**	**-**	1,592	-

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$ 2,975 (2016: US$976).

(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,	
	2017	2016
	%	%
Equity investments:		
Exchange traded equity investments	**5.58**	3.40
Unlisted private equity investments	**2.30**	1.71
Total equity investments	**7.88**	5.11
Mutual funds:		
Funds invested with fund managers[1]	**4.84**	3.82
Unlisted closed and open ended investments funds	**6.37**	8.42
Total mutual funds	**11.21**	12.24
Debt securities:		
Exchange traded debt securitites	**16.84**	14.61
Unlisted private debt securities	**3.70**	4.36
Total debt securities	**20.54**	18.97
Total investment assets	**39.63**	36.32

(1) Funds available with fund managers include cash and U.S. Treasury bills, as reported by fund managers at December 31, 2017.

(Amount expressed in thousands of US$ dollars)

22. Financial Risk Management (continued)

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.

Securities are concentrated in the following industries:

	December 31,	
	2017	2016
	%	%
Equity investments:		
Banks / financial services	**0.41**	2.19
Pharmaceutical	**12.99**	4.71
Others (fishing, diversified, energy, basic materials, etc.)	**2.70**	7.17
Funds invested with fund managers	**3.78**	-
Mutual funds:		
Banks / financial services	**3.48**	8.38
Real Estate	**1.13**	0.17
Pharmaceutical	**5.07**	7.56
Others (diversified, technology, etc.)	**18.60**	17.58
Debt securities:		
Banks / financial services	**6.21**	4.58
Pharmaceutical	**4.35**	4.79
Others (mining, energy, basic materials, etc.)	**7.58**	13.34
Funds invested with fund managers	**33.70**	29.53
	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, 2017 were US$112 (2016: US$106).

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, 2017 was 32.57% (2016: 23.79%).

22. Financial Risk Management (continued)

	December 31,	
	2017	2016
	US$ 000	US$ 000
Total elegible capital	**212,459**	181,904
Total risk weighted assets	**652,229**	764,520
Capital adequacy ratio	**32.57%**	23.79%

23. Reclassifications

Some amounts in the financial statements as of December 31, 2016 were reclassified for purposes of comparison with the figures at December 31, 2017. These reclassifications had no relative significance on the financial position or statement of income of the Bank.

24. Subsequent Event

The Bank has evaluated the impact of all subsequent events through March 21, 2018, which is the date that the financial statements were available to be issued and has determined that there were no additional events requiring adjustment.