CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S. A. AND SUBSIDIARIES

(Panama, Republic of Panama)

Consolidated Financial Statements

December 31, 2018

(With Independent Auditors' Report)

CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Corporación Interamericana para el Financiamiento de Infraestructura, S. A.

Opinion

We have audited the consolidated financial statements of Corporación Interamericana para el Financiamiento de Infraestructura, S. A. and Subsidiaries ("the Corporation"), which comprise the consolidated statement of financial position as of December 31, 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

KPMG, una sociedad civil panameña, y firma de la red de firmas miembros independiente de KPMG, afiliadas a KPMG International Cooperative ("KPMG International"), una entidad suiza

Adoption of IFRS 9 Financial Instruments
See Notes 3(h) and 14 to the consolidated financial statements

Key audit matters

As described in the notes to the consolidated financial statements, the impairment losses have been determined in accordance with IFRS 9 Financial Instruments.

This was considered a key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgment to determine the appropriate classification and measurement and subsequent evaluation of impairment of financial instruments.

Key areas of judgment included:

- The interpretation of the concepts of impairment established in IFRS 9, especially to determine the significant increase in credit risk of financial instruments, reflected in the Corporation's expected credit loss model ("ECL").
- The identification of exposures with a significant deterioration in credit quality.
- Assumptions used in the ECL model such as, for example, the financial condition of the counterparty, expected future cash flows and the forward looking analysis.
- The need to apply additional assumptions to reflect current or future external factors that may not be adequately incorporated into the ECL model.

How the key matter was addressed during the audit

Our audit procedures regarding the classification and measurement of financial assets and liabilities, considering the use of specialists, are detailed below:

- We assessed the policies of IFRS 9 adopted by the Corporation in terms of classification and measurement, based on compliance with the requirements of IFRS 9.
- We obtained an understanding and evaluated the reasonableness of the assumptions/ judgments used by management on the classification and measurement of financial instruments, including the business model applied by the Corporation.
- We assessed the contractual terms of the different financial instruments in order to determine the reasonableness of the cash flows that are solely payments of principal and interest ("SPPI").
- We assessed that the accounting entries for the adoption of IFRS 9 have been properly recorded.

Our audit procedures regarding impairment assessment methodology, considering the use of specialists, included:

- We assessed the modeling techniques and methodology used by the Corporation to calculate its impairment allowance were in compliance with the requirements of IFRS 9.
- We assessed the design of the processes and performed tests on the operational efficiency of the relevant controls associated with:
  - Data used to determine the impairment reserve, including transactional data captured at loan origination, ongoing internal credit quality assessments, storage of data and interfaces to the expected credit loss model.

- Expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy.

- We assessed and test the significant assumptions of the ECL model of the different financial instruments.

- We assessed the accuracy of the disclosures in the consolidated financial statements.

Allowance for loan losses
See Notes 3(h) and 6 to the consolidated financial statements

Key audit matter	How the key matter was addressed during the audit
The allowance for loan losses is considered as one of the most significant matters because it requires the use of judgments and subjective assumptions made by management for the construction of its expected credit loss ("ECL") model. The loan portfolio´s gross amount represents 96% of the Corporation´s total assets. The allowance for loan losses is comprised of ECL as a result of the loan rating model and the mechanism to determine the probability of default of each loan according to the impairment stage in which it is assigned.	Our audit procedures, considering the use of specialists, included: • We assessed key controls on delinquency calculations, and internal customer risk ratings, and reviewed as to accuracy of customer and model information and methodologies used. • For a sample of loans, the respective credit files were inspected, including the debtors' financial information, the values of guarantees, determined by expert appraisers, which support the credit operations and other factors that could represent an event of loss, to determine the reasonableness of the credit risk rating assigned by the risk officers. • The methodology applied by the Corporation in the ECL model was assessed in accordance with IFRS 9 Financial Instruments, through the inspection of policies, manuals and methodology documented and approved by the Corporation's governance. • An independent assessment was made of the inputs used based on the methodology and recalculation was carried out according to the ECL model. • We assessed the judgments applied by management on assumptions relating to the current conditions of the economy and the considerations on the prospective analysis that can change the level of ECL, based on our experience and knowledge of the industry.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors´ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner of the audit resulting in this independent auditors' report is Luis Venegas.

KPMG

Panama, Republic of Panama
March 1, 2019

CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Financial Position

December 31, 2018

(Expressed in US Dollars)

	Note	2018	2017
Assets			
Cash and cash equivalents	6	15,215,074	30,356,948
Investment securities, net	6	1,451,595	0
Loans receivable at amortized cost	6	354,494,289	349,446,443
Assets held-for-sale, net	6	1,423,461	2,759,566
Furniture, equipment and improvements, net	7	727,548	826,643
Receivables from advisory and structuring services, net	6	5,010,647	5,514,073
Derivative assets held for risk management	6, 15	1,981,746	0
Other assets		2,042,368	1,057,678
Total assets		382,346,728	389,961,351
Liabilities			
At amortized cost:			
Loans payable	8	148,347,209	282,573,562
Bonds	6, 9	101,208,384	0
Commercial paper	6, 10	33,193,000	5,000,000
Accrued interest payable		781,432	1,798,919
Other accounts payable		1,140,128	1,813,324
Total liabilities		284,670,153	291,185,805
Equity			
Share capital	11	54,000,001	54,000,001
Additional paid-in capital		85,000	85,000
Retained earnings		43,591,574	44,690,545
Total equity		97,676,575	98,775,546
Total liabilities and equity		382,346,728	389,961,351
Commitments and contingencies			
Loans pending disbursement	17	46,563,788	44,317,746
Undrawn balance of credit facilities	6, 8	93,500,000	70,867,714
Notional amount on swaps	15	94,000,000	0

The consolidated statement of financial position should be read along with the accompanying notes to the consolidated financial statements.

CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2018

(Expressed in US Dollars)

	Note	2018	2017
Interest income:			
Cash and cash equivalents		215,753	63,102
Investment securities		28,833	0
Loans receivable		32,909,883	26,058,593
Total interest income		33,154,469	26,121,695
Interest expense:			
Loans payable		(12,496,448)	(12,948,032)
Debt securities		(3,850,658)	0
Total interest expense		(16,347,106)	(12,948,032)
Net interest income		16,807,363	13,173,663
Other income:			
Advisory and structuring fees and others, net		6,748,336	7,553,124
Gain on derivative instruments, net	15	173,362	2,759
Total other income		6,921,698	7,555,883
Operating income		23,729,061	20,729,546
Provision for loan losses	6	(3,144,671)	(2,341,642)
Reversal of (impairment) loss on investment securities	6	177,841	(441,959)
Impairment loss on assets held-for-sale	6	(1,336,105)	(1,054,654)
Impairment loss on receivable		(494,891)	(255,526)
Depreciation and amortization expense	7	(161,966)	(122,548)
Personnel expenses		(5,592,365)	(5,148,132)
Other administrative expenses		(4,536,608)	(3,220,786)
Net income before tax		8,640,296	8,144,299
Income taxes	13	(480,028)	(367,792)
Net income for the year		8,160,268	7,776,507
Other comprehensive income:			
Items that are or may be reclassified to profit or loss:			
Fair value reserve:			
Net changes in fair value		0	(2,285)
Net amount transferred to profit or loss		0	(2,759)
Other comprehensive loss for the year		0	(5,044)
Total comprehensive income for the year		8,160,268	7,771,463
Basic earnings per share	12	0.15	0.14

The consolidated statement of compehensive income should be read along with the accompanying notes to the consolidated financial statements.

CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

(Expressed in US Dollars)

	Share capital	Additional paid-in capital	Fair value reserve	Retained earnings	Total equity
Balance at December 31, 2016	54,000,001	85,000	5,044	37,077,141	91,167,186
Net income for the year	0	0	0	7,776,507	7,776,507
Other comprehensive income					
Net changes in fair value	0	0	(2,285)	0	(2,285)
Net amount transferred to profit or loss	0	0	(2,759)	0	(2,759)
Total other comprehensive loss	0	0	(5,044)	0	(5,044)
Total comprehensive (loss) income for the year	0	0	(5,044)	7,776,507	7,771,463
Transactions with owners of the Corporation					
Complementary tax, Panama	0	0	0	(163,103)	(163,103)
Balance at December 31, 2017	54,000,001	85,000	0	44,690,545	98,775,546
Balance at December 31, 2017	54,000,001	85,000	0	44,690,545	98,775,546
Impact of adopting IFRS 9 at January 1, 2018 (see note 13)	0	0	0	(4,745,189)	(4,745,189)
Balance at January 1, 2018	54,000,001	85,000	0	39,945,356	94,030,357
Net income for the year	0	0	0	8,160,268	8,160,268
Total comprehensive income for the year	0	0	0	8,160,268	8,160,268
Transactions with owners of the Corporation					
Complementary tax, Panama	0	0	0	(235,121)	(235,121)
Dividends paid	0	0	0	(4,278,929)	(4,278,929)
Balance at December 31, 2018	54,000,001	85,000	0	43,591,574	97,676,575

The consolidated statement of changes in equity should be read along with the accompanying notes to the consolidated financial statements.

CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE INFRAESTRUCTURA, S. A. AND SUBSIDIARIES
(Panama, Republic of Panama)

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

(Expressed in US Dollars)

	Note	2018	2017
Cash flows from operating activities			
Net income for the year		8,160,268	7,776,507
Adjustments for:			
Gain on derivative instruments, net		(173,362)	(2,759)
Provision for loan losses	6	3,144,671	2,341,642
(Reversal of) impairment loss on investment securities	6	(177,841)	441,959
Impairment loss on assets held-for-sale	6	1,336,105	1,054,654
Impairment loss on receivable		494,891	255,526
Depreciation and amortization expense	7	161,966	122,548
Loss on sale of computer equipment	7	1,118	0
Net interest income		(16,807,363)	(13,173,663)
Income tax expense	13	480,028	367,792
		(3,379,519)	(815,794)
Changes in:			
Other assets		(18,916)	(1,676,456)
Other accounts payable		655,160	55,852
Loan collections		144,554,361	151,412,272
Loan disbursements		(157,681,106)	(214,457,862)
Derivative assets held for risk management		(1,981,746)	0
		(14,472,247)	(64,666,194)
Income tax paid		(545,121)	(581,804)
Interest received		33,341,913	25,113,297
Interest paid		(17,364,593)	(12,731,380)
		15,432,199	11,800,113
Net cash flows from operating activities		(2,419,567)	(53,681,875)
Cash flows from investing activities			
Acquisition of investment securities		(1,450,000)	0
Acquisition of furniture, equipment and improvements and intangible assets	7	(125,504)	(54,549)
Proceeds from sale of computer equipment	7	600	0
Net cash flows from investing activities		(1,574,904)	(54,549)
Cash flows from financing activities			
Proceeds from loans payable		100,975,000	205,230,000
Repayment of loans payable		(235,201,353)	(138,221,468)
Proceeds from bonds		100,000,000	0
Repayment of bonds		(600,000)	0
Proceeds from commercial paper issued		43,003,000	5,000,000
Repayment of commercial paper		(14,810,000)	0
Complementary tax paid		(235,121)	(163,103)
Dividends paid		(4,278,929)	0
Net cash flows from financing activities		(11,147,403)	71,845,429
Net (decrease) increase in cash and cash equivalents		(15,141,874)	18,109,005
Cash and cash equivalents at the beginning of the year		30,356,948	12,247,943
Cash and cash equivalents at the end of the year		15,215,074	30,356,948

The consolidated statement of cash flows should be read along with the accompanying notes to the consolidated financial statements.

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(1) Reporting Entity

Corporación Interamericana para el Financiamiento de Infraestructura, S. A. (the Corporation or CIFI) was organized on August 10, 2001 under the laws of the Republic of Costa Rica and began operations in July 2002. As of April 4, 2011, the Corporation was legally redomiciled under the laws of Republic of Panama.

The Corporation's business structure is based on one segment, as its main line of business is granting loans to finance infrastructure projects in Latin America. However, it also offers other services such as "Advisory & Structuring" services, which are not evaluated as a separate segment of the Corporation's business but rather assessed in conjunction with its lending activities.

Effective July 1, 2016, CIFI moved its headquarters from Arlington, Virginia to Panama City, Republic of Panama; the presence in Panama has allowed the Corporation to be closer to CIFI's Latin America and Caribbean operations, which is its center stage. Panama is an important financial center in Latin America and the Caribbean, and also it is a logistical enclave that allows quick access to the region.

The Corporation's main offices are located at MMG Tower, 13th Floor, Office 13A, Paseo Roberto Motta Avenue, Costa del Este, Panama City, Republic of Panama.

The Corporation owns or controls the following subsidiary companies incorporated in 2017:

	Activity	Country of Incorporation	Controlling Ownership	
			2018	2017
CIFI SEM, S. A.	Personnel Management	Panama	100%	100%
CIFI PANAMA, S. A.	Lending & Financing Structuring	Panama	100%	100%
CIFI LATAM, S. A.	Lending & Financing Structuring	Panama	100%	100%
CIFI AM, S.A.	Investment Funds Administration	Cayman Island	100%	100%

The consolidated financial statements were authorized for issuance by the Corporation's Board of Directors on February 28, 2019.

(2) Basis of Preparation

(a) Statement of compliance

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

(2) Basis of Preparation, continued

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments and certain investment securities that are measured at fair value, assets held-for-sale measured at fair value less costs to sell and bonds designated as hedged items in qualifying fair value hedging relationships which are measured at amortized cost adjusted for hedging gain or loss.

(c) Functional and presentation currency

The consolidated financial statements are presented in U.S. dollars (US$), which is the Corporation's functional currency.

All of the Corporation's assets and liabilities are denominated in U.S. dollars. Additionally, shareholder contributions and ordinary shares are denominated in that currency.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following notes:

- Allowance for loan losses and interest receivable – note 6;
- Impairment of assets held-for-sale – note 6;
- Fair value of financial instruments – note 16.

(3) Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of Consolidation

(i) Subsidiaries

The Corporation has control on a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The financial statements of the subsidiaries, described in Note 1, are included in the consolidated financial statements since the date the Corporation obtains control and ceases when the Corporation loses control.

(3) Significant Accounting Policies, continued

Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective acquisition date or until the effective disposal date, as applicable.

(ii) Transactions eliminated in consolidation
All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Corporation and its subsidiaries are eliminated in preparing the consolidated financial statements.

(b) Foreign currency transactions
The Corporation's functional currency is the U.S. dollar, and all assets and liabilities are denominated in U.S. dollars (US$). In case the Corporation has assets and liabilities denominated in currencies other than the U.S. dollar, the Corporation translates the value of such assets or liabilities into U.S. dollars at the prevailing exchange rate between the currency in which the assets or liabilities are denominated and the U.S. dollar as of the reporting date. Transactions in foreign currency are translated at the foreign exchange rate in effect at the date of the transaction. Translation gains or losses are presented in profit or loss.

(c) Cash and cash equivalents
Cash and cash equivalents include currency on hand, unrestricted cash balances held with banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Corporation for management of its short-term commitments.

(d) Financial assets and financial liabilities
(i) Recognition and initial measurement
The Corporation initially recognizes loans receivable, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments are recognized on the trade date, which is the date on which the Corporation becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification
Policy applicable before January 1, 2018
Originated loans are loans granted by the Corporation by providing money to a debtor, other than those structured with the intention of short-term profit taking.

Available-for-sale assets are financial assets that are not held for trading purposes or held to maturity.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Corporation has the intent and ability to hold to maturity.

For assets and liabilities classified at fair value through profit or loss, changes in fair value are directly recognized in profit or loss.

(3) Significant Accounting Policies, continued

Policy applicable from January 1, 2018

Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

All other financial assets are classified as measured at FVTPL.

Business model assessment

The Corporation makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

(3) Significant Accounting Policies, continued

- how the performance of the portfolio is evaluated and reported to the Corporation's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Corporation's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risk and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Corporation considers the contractual terms of the instruments. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Corporation considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Corporation's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

(3) Significant Accounting Policies, continued

The Corporation holds a portfolio of long-term fixed rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Corporation has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that reflect a consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Financial Liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

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

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

The Corporation has not designated any liabilities as at FVTPL and does not intend to do so.

(iii) Derecognition

A financial asset is derecognized when the Corporation loses control over the contractual rights that comprise the asset. This occurs when the rights are realized, expire, or are surrendered. A financial liability is derecognized when it is extinguished.

(iv) Modifications to financial assets

Financial assets

If the terms of a financial asset are modified, the Corporation evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value.

Policy applicable before January 1, 2018

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognized, then impairment of the asset was measured using the pre-modification interest rate.

(3) Significant Accounting Policies, continued

Policy applicable from January 1, 2018

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Corporation recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

(v) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Corporation has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Corporation measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with enough frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Corporation uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take, into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Corporation measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(vi) Identification and measurement of impairment

Policy applicable before January 1, 2018

At each reporting date, the Corporation assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably. Objective evidence may include:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;

(3) Significant Accounting Policies, continued

- the restructuring of a loan or advance by the Corporation on terms that the Corporation would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse change in the payment status of borrowers or issuers in the group, or economic data that correlate with details in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognized in other comprehensive income (OCI). Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognized in OCI.

Policy applicable from January 1, 2018
Financial assets
IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will be applied to financial assets measured at amortized cost and FVOCI, except for investments in equity instruments.

IFRS 9 introduces a three-stage approach to impairment for financial assets that are performing at the date of origination or purchase. This approach is summarized as follows:

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

(3) Significant Accounting Policies, continued

- Lifetime ECL not credit impaired: The Corporation recognizes a credit loss allowance at an amount equal to lifetime expected credit losses for those financial assets which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the financial assets. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12-month ECL.

- Lifetime ECL credit impaired: The Corporation recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a probability of default (PD) of 100% via the recoverable cash flow for the asset, for those financial assets that are credit-impaired. The treatment of loans in this stage remains substantially the same as the treatment of impaired loans under IAS 39 except for homogeneous portfolios.

- Financial assets that are credit-impaired upon recognition are categorized within this stage with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these purchased or originated credit-impaired (POCI) assets is discussed further below.

- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted effective interest rate. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

The Corporation considers that impairment losses are likely to increase and become more volatile for financial instruments under the new methodology of ECL of IFRS 9.

(e) Derivatives held for risk management purposes and hedge accounting
Management uses derivative financial instruments as part of its operations. Those instruments are recognized at fair value in the statement of financial position.

The Corporation designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Corporation formally documents the relationship between the hedging instrument and the hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Corporation makes an assessment, both at the inception of the hedge relationship as well as on a quarterly basis, as to whether the hedging instrument is expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

(3) Significant Accounting Policies, continued

Derivative instruments recognized as fair value hedges hedge exposure to changes in the fair value of an asset or liability recognized in the consolidated statement of financial position, or in the fair value of an identified portion of such asset or liability that is attributable to the specific hedged risk that could affect the net gain or loss recognized in the consolidated financial statements.

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect profit or loss, changes in the fair value are recognized immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognized in profit or loss. If the hedged item would otherwise be measured at cost or amortized cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(f) Investment securities

Policy applicable before January 1, 2018

Investment securities are classified at the date of purchase based on management's ability and intent to sell or hold them until maturity. The Corporation classifies its investment securities as follows:

Fair value through profit or loss:

Investment securities at fair value through profit or loss are financial assets and liabilities for which changes in fair value are recognized immediately in profit or loss. An investment security is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition or if the Corporation manages the investments and makes purchase and sale decisions based on their fair value.

Available-for-sale:

Available-for-sale securities are acquired by the Corporation with the intent to hold them for an unspecified period of time but may be sold in response to liquidity needs or changes in interest rates, exchange rates, or equity prices. Available-for-sale investment securities are financial assets not classified at fair value through profit or loss nor held-to-maturity. These securities are measured at their fair value and changes in value are recognized directly in equity. These securities are measured at their fair value and changes in value are recognized directly in equity.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Corporation becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss.

(3) Significant Accounting Policies, continued

Other fair value changes, other than impairment losses, are recognized in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

<u>Held-to-maturity:</u>
Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Corporation has the intent and ability to hold to maturity.

Policy applicable from January 1, 2018
The investment securities in the consolidated statement of financial position includes:

- Debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognized immediately in profit or loss.
- Debt securities measured at FVOCI.
- Equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- Interest revenue using the effective interest method.
- ECL and reversals.
- Foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

The Corporation elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in OCI. Cumulative gains and losses recognized in OCI are transferred to retained earnings on disposal of an investment.

(3) Significant Accounting Policies, continued

(g) Loans receivable

Policy applicable before January 1, 2018

Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and originated, generally, by providing funds to debtors as loans. Loans are initially measured at fair value plus the originating costs and any subsequent measurement at amortized cost utilizing the effective interest method, except when the Corporation elects to recognize the loans and advances at fair value with changes in profit or loss.

Loans are defined as operations relating to any type of underlying instrument or document, except investment securities, whereby credit risk is assumed by the entity, either by providing or committing to provide funds or credit facilities, acquiring collection rights, or guaranteeing that third parties will honor their obligations.

Policy applicable from January 1, 2018

Loans receivable captions in the consolidated statement of financial position include:

- Loans and advances measured at amortized cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

(h) Allowance for loan losses

Policy applicable before January 1, 2018

In determining the allowance for loan losses for performing loans, the Corporation applies its own credit risk rating system that takes into account the following: type of industry, vulnerability to foreign exchange fluctuations, competitive position, financial structure, sovereign risk, etc. The system considers the current and forecasted financial position of borrowers, their ability to pay, the quality and liquidity of collateral, and other factors that could affect repayment of principal and interest. The system is an additional tool to determine if there is any objective evidence that a financial asset or group of financial assets is impaired. The allowance for loan losses is increased when a provision for loan losses is established. The provision for loan losses is reported in the profit or loss.

A loan is declared impaired if: i) it is past due as to principal or interest for 90 days or more; (ii) it is classified as a problem loan by independent credit review; (iii) it is required or recommended to be partially or fully charged-off or perform execution of collateral; and (iv) the client is in bankruptcy. The loan can be declared not impaired if: i) it has been restructured, fulfilling at least 1 year with all requirements; (ii) it has two consecutive capital payments; or (iii) the client has cured the events that lead to impairment (i.e. bankruptcy or default).

Impaired loans assessed

If a loan is determined to be impaired, the impairment amount must be determined, based on one of the following methodologies: present value of future expected cash flows discounted at the original effective interest rate, market value of the loan, or the fair value of the collateral.

(3) Significant Accounting Policies, continued

For loans and receivables, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is reduced and the amount of the loss is recognized in the respective provision for losses. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Restructured loans

Restructured loans should only be considered by the Corporation as a concerted collective action among all lenders involved, provided there is a balance in burden- sharing between owners and lenders. A loan that has been restructured will be identified as such for the remainder of its life.

Impairment reversal

If in a subsequent period the amount of the impairment loss reduces, and the reduction can be objectively attributed to an event that occurred after the impairment was recognized (as an improvement in the debtor's credit quality), the impairment reversal previously recognized will be recorded in the provision for loan losses.

Management considers that the allowance for loan losses represents a reasonable estimate of loan impairment losses incurred at each reporting date.

Policy applicable from January 1, 2018

The Corporation recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments
- Loan commitments issued.

No impairment loss is recognized on equity investments.

The Corporation measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

The Corporation considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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

(3) Significant Accounting Policies, continued

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls.

- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows

- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Corporation if the commitment is drawn down and the cash flows that the Corporation expects to receive

- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Corporation expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer

- A breach of contract such as a default or past due event

(3) Significant Accounting Policies, continued

- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise

- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization

- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Write-offs
Loans and debt securities are written off when there is no realistic prospect of recovery. This is generally the case when the Corporation determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities, in order to comply with the Corporation procedures for recovery of amounts due.

(i) Assets held for sale
Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss. The Company reviews the carrying amounts of its assets held-for-sale to determine whether there is any indication of impairment. If any such indication exists, then the asset´s recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of the asset exceeds its recoverable amount.

(j) Furniture, equipment and improvements
Furniture, equipment and improvements are used in the office premises of the Corporation. Those assets are stated at historical cost less accumulated depreciation and amortization. The historical cost includes the expense that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the carrying value of the asset or recognized as a separate asset, as applicable, only when it is likely that the Corporation would obtain the future economic benefits associated with the property and the cost can be reliably measured. Costs considered as repair and maintenance are recognized in profit or loss during the financial period they are incurred on.

(3) Significant Accounting Policies, continued

Depreciation and amortization expenses of furniture, equipment and improvements are recognized in profit or loss under the straight-line method considering the useful life of the assets. The estimated useful lives are summarized as follows:

Improvements	5 years
Furniture and equipment	4-5 years

Furniture and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount. The recoverable amount is the greater of its value in use and its fair value less costs to sell.

(k) Liabilities

Liabilities are carried at cost or amortized cost, except for bonds in qualifying hedging relationship measured at amortized cost adjusted for hedging gain or loss.

(l) Provisions

A provision is recognized in the consolidated statement of financial position when the Corporation has acquired a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions made approximate settlement value; however, final amounts may vary. The estimated amount of the provision is adjusted at each reporting date, directly affecting profit or loss.

(m) Income tax

Estimated income tax is the expected tax payable on taxable income for the year, using tax rates enacted at the reporting date, and any other adjustment to taxes payable in respect of previous years.

Deferred income tax represents the amount of income tax payable and/or receivable in future years resulting from temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. These temporary differences are expected to be reversed in future years. If it is determined that the deferred tax would not be realized in future years, the deferred tax will be totally or partially reduced. The Corporation has not recognized any deferred tax assets or liabilities at December 31, 2018.

(3) Significant Accounting Policies, continued

(n) Income and expense recognition

(i) Interest income and expense

Policy applicable before January 1, 2018

Interest income and expense are recognized in profit or loss as they accrue, based on the effective interest method. Interest income and expense include amortization of any discount or premium during the term of the instrument until its maturity.

The 'effective interest rate' is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Corporation estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Policy applicable from January 1, 2018

Effective interest rate

Interest income and expense are recognized in profit or loss 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 gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Corporation estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before January 1, 2018).

(3) Significant Accounting Policies, continued

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense
In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(ii) Fee and commission income and expenses
Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. When a commission is deferred, it is recognized over the term of the loan.

Other fee and commission income are included in other operating income, arises from services provided by the Corporation, including advisory and structuring services, and is recognized as the related services are performed.

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

The following table describes the products, services and nature for which the Corporation generates its income.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
Advisory and Structuring Service	Advising clients in the structuring of the terms and conditions established in the offer of financing and coordination between the legal advisors of the lending and borrowing counterparties in all legal aspects related to the offer and acceptance of the credit facility, among others.	Revenue related to transactions is recognized at the point in time when the transaction takes place.

The Corporation has adopted IFRS 15 Revenue from Ordinary Activities from Contracts with Customers since January 1, 2018, the effective date.

(3)Significant Accounting Policies, continued

According to the assessment realized by the Corporation, this standard has not had an impact on the accounting policies for the recognition of income from fees and commissions.

The adoption of IFRS 15 had no impact on the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Corporation. Consequently, the impact on comparative information is limited to the new disclosure requirements.

(o) *Net income from other financial instruments at fair value through profit or loss*
Net income from other financial instruments at fair value through profit or loss relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities designated at fair value through profit or loss and includes all realized and unrealized fair value changes.

(p) *Basic earnings per share*
The Corporation presents basic earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Corporation by the weighted average number of ordinary shares outstanding during the period.

(q) *Segment Information*
A business segment is a component of the Corporation, whose operating results are regularly reviewed by management to make decisions about the resources that will be assigned to the segment and thus evaluate its performance, and for which financial information is available for this purpose.

The Corporation's business structure is based on one segment, as its main line of business is granting loans to finance infrastructure projects in Latin America. However, it also offers other services such as "Advisory & Structuring" services, which are not evaluated as a separate segment of the Corporation's business but rather assessed in conjunction with its lending activities.

(r) *Employee benefits*

(i) *Short-term employee benefits*
Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) *Other long-term employee benefits*
The Corporation's net obligation in respect of long-term employee (key executive) benefits is the amount of future benefits that executives have earned in return for their service in the current and future periods. That benefit is based on the award value generated to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(3) Significant Accounting Policies, continued

(s) Standards issued but not yet adopted

IFRS 16 Leases

The Corporation is required to adopt IFRS 16 Leases from January 1, 2019. The Corporation has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impact of adopting the standard on January 1, 2019 may change because:

- The Corporation has not finalized the testing and assessment of controls over its new IT systems; and

- The new accounting policies are subject to change until the Corporation presents its first consolidated financial statements that include the date of initial application.

The IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including 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.

As at December 31 2018, the Corporation future minimum lease payments under non-cancellable operating leases amounted to US$7 million, on an undiscounted basis, which the Corporation estimates it will recognize as additional lease liabilities.

The Corporation plans to apply IFRS 16 initially on January 1, 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

The Corporation plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(4) Balances and Transactions with Related Parties

For the year ended December 31, 2018 the Corporation entered into transactions with parties that are considered, to be related.

(4) Balances and Transactions with Related Parties, continued

The following items were included in the consolidated statement of financial position and of comprehensive income, and their effects are as follows:

2018

Type of entity	Relationship	Assets - Deposits Due from Banks	Liabilities - Loans and Accrued Interest Payable	Interest Income on Deposits	Interest Expenses on Loans Payable
Legal entities	Shareholders	0	16,934,489	0	861,425

2017

Type of entity	Relationship	Assets - Deposits Due from Banks	Liabilities - Loans and Accrued Interest Payable	Interest Income on Deposits	Interest Expenses on Loans Payable
Legal entities	Shareholders	3,427	57,065,864	3,521	2,579,686

The Corporation has access to US$5,000,000 (2017: US$14,710,850) of undisbursed committed and uncommitted lines of credit with related parties, in addition to other credit facilities (see note 8).

Members of the Board of Directors have received compensation of US$125,265 (2017: US$114,183) for attending meetings during the year.

(5) Employee Benefits

For the year ended December 31, 2018 personnel expenses include salaries and benefits paid to key executive officers for US$988,653 (2017: US$885,614).

In addition to employee salaries, the Corporation provides all full-time employees with the following benefits:

(a) All full-time employees are required to participate in the following insurance plans, unless proof of equivalent coverage is provided:

- Medical insurance
- Health and life insurance
- Travel insurance.

(b) Retirement plan contributions (Simple IRA): The Corporation contributes 3% (2017: 3%) of each employee's annual base salary. The Corporation makes its contributions to an independent fund manager and expenses those contributions as incurred. The Corporation has no future commitment to manage the funds contributed.

(c) In June 2018, the Board of Directors of the Corporation approved the implementation of a long-term incentive plan ("Plan") applicable to key executives ("Participants"). The Plan is focused on rewarding and motivating the Participants for generating sustainable long term-value for the Corporation.

(5) Employee Benefits, continued

Pursuant to the Plan, the Corporation grants the Participant a right to receive stock options convertible into cash, if certain performance metrics are achieved during a five years term starting in 2018, that is attributed yearly (“Option”). The Option does not grant the Participant any rights in the Corporation´s stock.

The Plan has a vesting period of five years and a subsequent three-year payout period.

The benefits to the Participants are recognized in the consolidated statement of comprehensive income as personnel expense during the period in which they arise.

As of December 31, 2018, based on 2018 performance metrics and evaluation of the potential award value under the Plan, the annual pro-rata portion of the Option generated for this benefit was US$158,116.

The Corporation’s internal policy does not allow loans to be extended to its employees.

(6) Financial Risk Management

In the normal course of operations, the Corporation is exposed to different types of financial risks, which are minimized through the application of risk management policies and procedures. Those policies cover credit, liquidity, market, capital adequacy and operating risks.

Risk management framework

The Corporation’s Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. For such purposes, the Board reviews and approves the Corporation’s policies and has created the Risk Committee, the Audit Committee, the Credit Committee and the Nominating and Corporate Governance-Compensation Committee. All report regularly to the Board of Directors and are comprised of members of the Board and independent members.

The Corporation’s risk management policies are established to identify and analyze the risks faced by the Corporation and to set appropriate risk limits and controls. Risk management policies and controls are reviewed regularly to adapt to and reflect changes in market conditions and in the products and services offered. The Corporation applies periodic employee training, management standards, and internal procedures to develop a disciplined and controlled environment in which all employees understand their roles and responsibilities.

The Risk Committee of the Board of Directors oversees management's program to limit or control the material business risks. It ensures the Corporation has in place an appropriate enterprise- wide process to identify, assess, monitor and control material business risks including, but not limited to, credit risk, interest rate risk, liquidity risk, regulatory risk, counterparty risk, legal risk, operational risk, strategic risk, environmental risk, social risk, and reputational risk. The Committee also, on a regular basis, reviews the risk management programs and activities and the Corporation's compliance with those programs and activities. In addition, the Committee periodically reviews and monitors all matters related to the corporate culture within the Corporation. It reviews and monitors all the environmental and social responsibility standards and guidelines under which the Corporation and its employees must operate.

(6) Financial Risk Management, continued

The Audit Committee of the Board of Directors oversees the integrity of the Corporation's financial statements, compliance with legal and regulatory requirements, the independent auditor's qualifications and independence, the performance of the Corporation's internal audit function and independent auditor, and the Corporation's system of disclosure controls and system of internal controls regarding finance, accounting, and legal compliance. The Audit Committee encourages continuous improvement of, and fosters adherence to the Corporation's policies, procedures and practices at all levels. It also provides an open avenue of communication among the independent auditors, financial and senior management, the internal auditing function, and the Board.

The Credit Committee, majority comprised of senior management, reviews, approves and oversees the lending program of the Corporation. Their duties and responsibilities are to: review and approve loan transactions (including refinancing, rescheduling and restructuring transactions) within the limits established by the Board, including but not limited to Corporation's credit and lending policies; review and approve material waivers and amendments to a credit (changes in spread, amortization schedule, tenor and/or guaranties) within the limits established by the Board; and monitor problem loans and assets. This Committee also reviews and approves material waivers and amendments to a credit (changes in spread, amortization schedule, tenor and/or guarantees) within the limits established by the Board and monitors problem loans and assets. Any waiver to limits and policies requires approval from the Risk Committee.

The Nominating and Corporate Governance/Compensation Committee assists the Board in establishing and maintaining qualification standards for evaluating board candidates, in determining the size and composition of the Board of Directors and its committees, in monitoring a process to assess board effectiveness and in developing and implementing the Company's corporate governance guidelines. The Committee also makes employment and compensation decisions related to the Chief Executive Officer (the "CEO") and assist the CEO in carrying out his or her responsibilities relating to executive compensation, incentive compensation, and equity and non-equity based benefit awards.

There are two (2) committees at management level: Asset and Liability Committee (ALCO) and Procurement.

The ALCO must abide by the guidelines established in the risk policies relating to management of Interest Rate, Forex, GAP and Liquidity Risks and comply with technical criteria pursuant to good banking practices. In addition, it recommends to the Risk Committee updates to the Capital Adequacy, Interest Rate, Forex, GAP and Liquidity policies. This Committee is composed of four (4) members of Management and is assisted by the Treasurer. As in the Credit Committee, any waiver to limits and policies will require approval from the Risk Committee.

The Procurement Committee, which is composed of three (3) members of Management, is involved in the procurement of goods and services on behalf of the Corporation. The Committee should ensure that purchasing and contracting activities comply with principles of fair competition, non-conflict of interest, cost-effectiveness and transparency.

(6) Financial Risk Management, continued

Following is a detailed explanation on management of credit, liquidity, market and operational risks:

(a) Credit risk

Credit risk is the risk that the debtor or issuer of a financial instrument owned by the Corporation fails to meet an obligation fully and on time in accordance with the contractual terms and conditions agreed when the Corporation acquired or originated the financial asset. Credit risk is mainly associated with the loan and investment securities (bonds) portfolios; and is represented by the carrying amount of those assets in the consolidated statement of financial position.

Investment and Loan Portfolios

CIFI will invest its liquid portfolio to give priority to security, liquidity, and profitability, using the following criteria:

- The investment horizon is up to 1 year.
- In instruments:
  - With a minimum issue or program size of US$200 million (to ensure liquid secondary market), excluding commercial paper programs in Panama (Valores Comerciales Negociables - VCN), which minimum program size is of US$50 million as approved by the Superintendency of the Securities Market (SMV) of Panama.
  - Of issuers located in countries with a rating of at least BB+/Ba1 from one of the main rating agencies (Moody's, Standard & Poor's, Fitch Ratings, Inc.).
  - Have a national rating of at least A or an international rating of BBB-/Baa3 (long term) or F2/ P-2 (short term).
- Excluding demand deposits, the exposure to any single issuer shall not exceed 10% of CIFI's total equity.
- Not more than 25% of the liquid portfolio may be invested in a country with a rating lower than BBB-.
- All investments shall be denominated in US$ or in local currency, provided that a financial institution with an international rating of AA- can hedge against the exchange risk (e.g., currency swap).
- 25% of the nominal value of the investment in the liquid portfolio will be included in the overall country loan portfolio exposure.
- For certificates of deposit, minimum issue or program size does not apply.

At December 31, 2018, the concentrations of credit risk by sectors and countries are within the limits established by the Corporation. There are no significant concentrations of credit risk by economic unit, sector, or country. The maximum exposure to credit risk is represented by the nominal amount of each financial asset.

(6) Financial Risk Management, continued

Loans receivable and investment securities are as follows:

Loans and investment securities, net	**2018**	**2017**
Investment securities:		
At fair value through OCI	0	8,080,925
At amortized cost	1,450,000	0
Accrued interest	1,595	0
Impairment losses on investment securities	0	(8,080,925)
Investment securities, net	1,451,595	0
Loans receivable	365,468,318	352,575,888
Accrued interest	5,621,425	5,810,464
Allowance for loan losses	(14,997,160)	(7,107,300)
Deferred income	(1,598,294)	(1,832,609)
Loans receivable at amortized cost	354,494,289	349,446,443
Total investments and loans (par value)	372,541,338	366,467,277
Total investments and loans, net	355,945,884	349,446,443

The loan portfolio includes the financing of project bonds totaling US$2,088,676 (2017: US$2,694,168).

The Corporation has a policy in place for granting payment extensions and for restructuring, renegotiating and refinancing loans. Payment extensions apply only when the borrower is experiencing temporary difficulties and will be able to resume payments in the short term in accordance with the original agreement. Restructuring and refinancing are considered as part of the overall credit/risk reevaluation framework, provided that a joint and collective effort is made by all participating lenders and both owners and lenders will equally share the debt burden.

The Corporation has a derecognition policy in place that requires impaired loans and investments to be monitored on an ongoing basis to determine the probability of their recovery, either by executing a guaranty pledged on behalf of the Corporation or through financial restructuring. An impaired loan is derecognized when the Board of Directors determines the loan or investment to be uncollectible or decides that its valuation does not warrant continued recognition as an asset.

The Corporation has developed a Credit Risk Rating System based on the Altman Z-score method adapted to emerging markets, for its project finance loans. The method identifies certain key factors based on a debtor’s financial performance that determine the probability of default and combine or weigh them into a quantitative score. That system also includes quantitative information and qualitative factors that affect infrastructure projects and emerging markets. The results consider relevant information such as foreign exchange risk, competition, project analysis, and country risk. For corporate loans, the Corporation has acquired the RiskCalc EDF model for Emerging Markets from Moody’s.

(6) Financial Risk Management, continued

The average loan portfolio risk rating is B+ as of December 31, 2018 (December 31, 2017: average loan portfolio risk rating was BB-) based on the Corporation's standards, which are not necessarily comparable to international credit rating standards.

The following table sets out information about the credit quality of financial assets measured at amortized cost.

	2018				
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total	2017
Loans receivable at amortized cost					
AAA / A-	10,866,426	0	0	10,866,426	35,549,927
BBB + / BBB-	18,261,592	0	0	18,261,592	30,085,374
BB+ / BB-	106,900,647	0	0	106,900,647	120,642,692
B+ / B-	174,629,598	2,088,676	0	176,718,274	144,297,222
<= CCC+	0	31,025,000	21,696,379	52,721,379	22,000,673
Total gross amount	310,658,263	33,113,676	21,696,379	365,468,318	352,575,888
Accrued interest	4,382,183	370,642	868,600	5,621,425	5,810,464
Loss allowance	(1,872,379)	(2,275,396)	(10,849,385)	(14,997,160)	(7,107,300)
Deferred income	(1,598,294)	0	0	(1,598,294)	(1,832,609)
Net carrying amount	311,569,773	31,208,922	11,715,594	354,494,289	349,446,443
Investment securities at amortized cost					
AAA / A-	0	0	0	0	0
BBB + / BBB-	203,000	0	0	203,000	0
BB+ / BB-	1,247,000	0	0	1,247,000	0
B+ / B-	0	0	0	0	0
<= CCC+	0	0	0	0	0
Total gross amount	1,450,000	0	0	1,450,000	0
Accrued interest	1,595	0	0	1,595	0
Net carrying amount	1,451,595	0	0	1,451,595	0
Investment securities at FVOCI					
AAA / A-	0	0	0	0	0
BBB + / BBB-	0	0	0	0	0
BB+ / BB-	0	0	0	0	0
B+ / B-	0	0	0	0	0
<= CCC+	0	0	0	0	8,080,925
Total gross amount	0	0	0	0	8,080,925
Loss allowance	0	0	0	0	(8,080,925)
Net carrying amount	0	0	0	0	0

As of December 31, 2018, the Corporation has past due loans for US$21,696,379 (2017: US$9,751,760).

To secure some of its loans payable, at December 31, 2018 the Corporation has pledged to the lenders rights to cash flows derived from certain loans receivable granted by the Corporation; those cash flows derive from certain loan and investment security portfolios representing 12.38% (2017: 31.48%) of the total assets.

(6) Financial Risk Management, continued

The following table shows a reconciliation from the opening to the closing balance of the ECL allowance by class of financial instrument:

	2018			
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loans receivable at amortized cost				
Balance at January 1	1,408,782	1,109,154	9,334,553	11,852,489
Transfer to 12-month ECL	14,581	(14,581)	0	0
Transfer to lifetime ECL not credit-impaired	(223,621)	223,621	0	0
Transfer to lifetime ECL credit-impaired	(41,751)	(226,726)	268,477	0
Net remeasurement of loss allowance	(124,318)	1,183,928	1,246,355	2,305,965
New financial assets originated	838,706	0	0	838,706
Balance at December 31	1,872,379	2,275,396	10,849,385	14,997,160

	2018			
	12-month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Investment securities at FVOCI				
Balance at January 1	0	0	8,080,925	8,080,925
Reversal of loss allowance	0	0	(177,841)	(177,841)
Write-off	0	0	(7,903,084)	(7,903,084)
Balance at December 31	0	0	0	0

Changes in the allowance for loan losses are as follows:

	2017
Balance at beginning of year	4,765,658
Provision for the year	2,341,642
Balance at end of year	7,107,300

Changes in 2017 in the impairment allowance for losses on investment securities are as follows:

	2017
Balance at beginning of year	7,638,966
Allowance for the year	441,959
Balance at end of year	8,080,925

As of December 31, 2018, the Corporation made the decision to write-off the investment securities at FVOCI portfolio (2017: US$8,080,925), this investment is secured with mortgage on fixed assets and the impairment of investment does not consider the mortgage because its realizable value and execution process are uncertain.

(6) Financial Risk Management, continued

Management of the Corporation generally follows the policy of requiring collateral from its customers or a corporate loan guarantee prior to formally extending and disbursing a loan. The loan portfolio is secured 99% (2017: 99%) as follows:

	2018	2017
Mortgage on fixed assets	140,872,279	141,187,575
Assets held in trust	150,101,773	165,885,098
Pledge on movable assets	40,834,481	24,952,415
Corporate guarantor	32,064,180	17,000,000
Unsecured	1,595,605	3,550,800
	365,468,318	352,575,888

The Corporation classifies loans as past due when no principal or interest payments have been made by thirty-one days after the due date.

Loans and investment securities earn interest at rates ranging between 3.09% and 12.16% per annum (2017: 4.07% and 15.00%).

- Maximum risk by economic unit: The maximum risk limit assumed by the Corporation with respect to individual borrowers or groups of borrowers having similar economic interests is 18% of CIFI's equity of its unaudited consolidated financial statements. However, exposure to any single client shall not exceed the following criteria, based on CIFI's equity of its audited consolidated financial statements:

Tier	CIFI Credit Rating	Unsecured	Secured
I	BB or better	12.5%	18.0%
II	B+ to BB-	9.0%	15.0%
III	B to B-	5.0%	12.0%

A loan will be secured if exposure is fully covered with acceptable guarantees to CIFI. All guarantees shall comply with the following criteria: i) Security valuation was performed based on an external and independent assessment; ii) an analysis must be made related to the underlying credit quality of any guarantee and its acceptable value for CIFI, including appraisals. For appraisals, if the most recent security valuation occurred within the span of three years might be accepted. However, the security valuation will be adjusted every year based on the appropriate depreciation; and iii) after the above value estimation, this valuation will be further adjusted.

(6) Financial Risk Management, continued

The concentration of the loan portfolio in individual borrowers or groups of borrowers having similar economic interests based on total equity is as follows:

	% of total equity 2018		% of total equity 2017	
	Number of exposures	U.S. dollars	Number of Exposures	U.S. dollars
0 to 4.99%	17	39,017,205	17	43,919,267
5 to 9.99%	19	128,822,342	14	103,399,570
10 to 14.99%	14	166,628,771	12	143,757,051
15 to 18%	2	31,000,000	4	61,500,000
	52	365,468,318	47	352,575,888

- Country risk: The Corporation uses a series of classifications by country risk and gross domestic product to place countries in the following risk categories: Prime, Normal, Fair, and Restricted. Under this system, country size is less relevant for high-risk countries and more significant for low-risk countries. Each category has a maximum credit limit on the total value of the corresponding loan portfolio. As of December 31, 2018, the Corporation complied with country risk exposure limits. However, for Argentina the Board of Directors has approved a temporal waiver until March 31, 2019.

  An analysis of the concentration of credit risk by country for gross loans and investment securities at the reporting date is as follows:

	2018	2017
Argentina	64,232,855	55,558,108
Brazil	47,627,625	50,667,429
Ecuador	35,538,036	37,797,637
Colombia	35,013,352	40,752,159
Panama	30,119,191	22,809,820
Honduras	26,813,891	18,248,913
Mexico	20,064,180	7,789,583
Nicaragua	15,059,924	15,707,989
Peru	15,000,000	26,338,462
Belize	13,125,000	13,125,000
Guatemala	12,920,000	13,600,000
Jamaica	12,098,398	9,402,413
Chile	11,252,323	18,811,538
Uruguay	10,866,426	13,549,927
Salvador	10,627,119	0
Paraguay	6,559,998	15,500,000
Costa Rica	0	997,835
Gross loans and investment portfolio	366,918,318	360,656,813
Accrued Interest	5,623,020	5,810,464
Total	372,541,338	366,467,277

(6) Financial Risk Management, continued

- Sector risk: The Corporation limits its concentration in any sector to 50% of the corresponding country risk limit, the Solar Power sector in Salvador is more than 50%. As of December 31, 2018, the Corporation complied with sector risk exposure limits. In addition, to control exposure to regulatory and market risks that may be common to the energy sectors, exposure to the aggregate of Hydro Power, Hydro Power (mini), Co-generation (Biomass), Geothermal, Solar Power, Wind Power, Gas Power and Thermal Power will be limited to 100% of the corresponding country exposure limit. The Thermal subsector will be limited to 20% of the country limit.

Gross loans and investment securities by economic sector are as follows:

	2018	2017
Solar Power	86,949,617	43,880,447
Airports and Seaports	46,800,206	62,560,522
Construction & Engineering	37,347,365	20,094,308
Gas & Oil	30,479,937	62,414,464
Hydro Power	29,444,757	25,184,242
Wind Power	28,185,430	35,302,937
Roads, Railroads and Other	26,711,592	13,149,745
Telecommunications	22,000,000	15,000,000
Co-generation (Biomass)	18,000,312	25,153,125
Water & Sanitation	14,052,083	14,200,000
Infrastructure Conglomerates	12,920,000	13,600,000
Logical Center and Other	7,000,000	7,000,000
Geothermal	4,938,343	5,454,979
Thermo Power	2,088,676	5,325,747
Power Distribution	0	997,835
Tourism	0	11,338,462
Gross loans and investment portfolio	366,918,318	360,656,813
Accrued Interest	5,623,020	5,810,464
Total	372,541,338	366,467,277

Assets held-for-sale (Panama): In March 2014, CIFI accelerated the loan granted to a thermo-power company in Panama, executing the guarantees of the loan, which included the trusts that owned: all of the shares of the company, all fixed assets (land and equipment) and the license of operation of the plant. As of March 31, 2014, CIFI reclassified the loan receivable, by transferring it to *"Assets Held-for-Sale"*, for US$7,425,000, plus US$678,682 that corresponded to other accounts receivable.

(6) Financial Risk Management, continued

During the year ended December 31, 2018 write-downs of US$1,336,105 on the asset held-for-sale were made to lower it is carrying amount to its fair value less costs to sell (2017: US$1,054,654).

The carrying value of the asset held for sale as of December 31, 2018 is US$1,423,461 (2017: US$2,759,566). As of December 31, 2018, the asset is being actively traded.

Changes in the impairment allowance for assets held-for-sale are as follows:

	2018	**2017**
Balance at beginning of the year	(5,344,116)	(4,289,462)
Allowance for the year	(1,336,105)	(1,054,654)
Balance at end of the year	(6,680,221)	(5,344,116)

In addition, commissions receivable from corporate services rendered to third parties, amounting to US$5,010,647 (2017: US$5,514,073), which are presented as receivable from advisory and structuring services, are classified as performing receivables. No ECL allowance was recorded those receivables, since they are short – term receivables and ECL are deemed as immaterial.

(b) Liquidity risk

Liquidity risk arises in the general funding of the Corporation's activities. It includes both the risk of being unable to settle assets at contractual maturities and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management of liquidity risk

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it has to have always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

The Treasurer receives information from management of new business units regarding liquidity needs for the next several days, weeks, and months. The Treasurer then keeps a portfolio of short-term liquid assets, largely made up of cash in banks, liquid investments in secure instruments in accordance with internal policies on liquid portfolio investment limits, and committed and available lines of credit, to ensure that the Corporation can meet expected and unexpected liquidity requirements.

(6) Financial Risk Management, continued

The liquidity position is monitored on a regular basis and liquidity stress testing is conducted under scenarios covering both normal and more severe market conditions. All internal policies and procedures for term matching are subject to review and approval by the Board of Directors. ALCO monitors the Corporation's liquidity position by evaluating the following requirements established in the Corporation's current liquidity policy, reporting to the Risk Committee and the Board of Directors on a quarterly basis:

- Mismatches in the consolidated statement of financial position – asset-liability gap analysis
- Anticipated funding needs and strategies
- Liquidity position
- Mark to market variances
- Stress analysis of the Corporation's forecasted cash flows.

As of December 31, 2018, the Corporation had US$15,215,074 (December 31, 2017: US$30,356,948) in cash and cash equivalents and maintains undisbursed and available balances of committed credit facilities with financial institutions for US$25,000,000 (December 31, 2017: US$25,000,000) with tenors between 2018 and 2022 (December 31, 2017: tenors between 2017 and 2020). Additionally, the Corporation maintains undisbursed and available balances of uncommitted short-term revolving credit facilities with financial institutions for US$68,500,000 (December 31, 2017: US$45,867,714). (See note 8).

According to the Corporation's liquidity policies, the Corporation shall comply with the following two limits: i) Cumulative asset-liability gap from 1 to 180 days > 0, and ii) Probability of negative cash flow balance in six months ≤ 1%. To apply the policy, the asset-liability gap analysis aggregates all contractual cash flows of on- and off-balance sheet assets and liabilities in their corresponding time band and cash flows attributed to undrawn loan commitments and borrowings are allocated to the time band in which management expects its occurrence.

(6) Financial Risk Management, continued

The Corporation's on-balance sheet financial asset and liability terms are matched as follows:

2018	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
Assets							
Cash and cash equivalents	15,215,074	0	0	0	0	0	15,215,074
Investments securities, net	967	47,000	453,628	500,000	450,000	0	1,451,595
Loans receivable at amortized cost	3,224,848	3,172,134	(1,017,047)	(4,046,230)	30,044,329	323,116,255	354,494,289
Assets held-for-sale	0	0	0	0	0	1,423,461	1,423,461
Derivative assets	0	0	144,753	0	243,997	1,592,996	1,981,746
Receivables from advisory and structuring services	871,481	1,009,549	2,514,020	615,597	0	0	5,010,647
Total	19,312,370	4,228,683	2,095,354	(2,930,633)	30,738,326	326,132,712	379,576,812
Liabilities							
Loans payable, gross	568,182	0	1,363,636	(7,795,829)	70,135,989	85,444,229	149,716,207
Bonds *	0	0	432,090	0	1,122,653	99,653,641	101,208,384
Commercial paper	0	0	0	13,000,000	20,193,000	0	33,193,000
Accrued interest payable	147,685	96,517	157,751	379,479	0	0	781,432
Total	715,867	96,517	1,953,477	5,583,650	91,451,642	185,097,870	284,899,023

2017	1 to 30 Days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
Assets							
Cash and cash equivalents	30,356,948	0	0	0	0	0	30,356,948
Loans receivable at amortized cost	38,790,426	18,477,489	4,887,056	6,482,257	19,693,745	261,115,470	349,446,443
Assets held-for-sale	0	0	0	0	0	2,759,566	2,759,566
Receivables from advisory and structuring services	2,327,202	1,535,275	22,071	1,265,532	0	363,993	5,514,073
Total	71,474,576	20,012,764	4,909,127	7,747,789	19,693,745	264,239,029	388,077,030
Liabilities							
Loans payable, gross	34,093,268	12,105,957	25,209,982	45,908,175	39,546,036	127,852,669	284,716,087
Commercial paper	0	0	0	0	5,000,000	0	5,000,000
Accrued interest payable	682,843	470,008	355,844	290,224	0	0	1,798,919
Total	34,776,111	12,575,965	25,565,826	46,198,399	44,546,036	127,852,669	291,515,006

* Before fair value hedging adjustment.

Outstanding contractual maturities of financial assets and liabilities and unrecognized loan commitments are as follows:

2018	Carrying amount	Gross Nominal inflow/ (outflow)	Less than 1 month	Over 1 to 3 months	Over 3 months to 1 year	Over 1 to 5 Years	Over 5 years
Non-derivative liabilities							
Loans payable	148,347,209	(157,498,390)	(755,794)	(1,997,945)	(65,516,266)	(88,657,532)	(570,852)
Bonds *	101,208,384	(126,272,764)	0	(1,892,162)	(4,077,453)	(43,118,701)	(77,184,449)
Commercial paper	33,193,000	(34,054,332)	0	(331,957)	(33,722,375)	0	0
Unrecognized loan commitments	0	(93,500,000)	(93,500,000)	0	0	0	0
Total	282,748,593	(411,325,486)	(94,255,794)	(4,222,064)	(103,316,094)	(131,776,233)	(77,755,301)
Non – derivate assets							
Investments securities, net	1,451,595	1,476,361	2,542	511,059	962,760	0	0
Loans receivable at amortized cost	354,494,289	546,762,589	9,507,788	9,920,598	68,523,256	255,842,460	202,968,487
Total	355,945,884	548,238,950	9,510,330	10,431,657	69,486,016	255,842,460	202,968,487

(6) Financial Risk Management, continued

2017	Carrying amount	Gross Nominal inflow/ (outflow)	Less than 1 month	Over 1 to 3 months	Over 3 months to 1 year	Over 1 to 5 Years	Over 5 years
Non-derivative liabilities							
Loans payable	282,573,562	(307,142,616)	(34,894,601)	(38,886,929)	(93,977,081)	(136,540,298)	(2,843,707)
Commercial paper	5,000,000	(5,000,000)	0	0	(5,0000,000)	0	0
Unrecognized loan commitments	0	(70,867,714)	(70,867,714)	0	0	0	0
Total	287,573,562	(383,010,330)	(105,762,315)	(38,886,929)	(98,977,081)	(136,540,298)	(2,843,707)
Non- derivate assets							
Loans receivable at amortized costs	349,446,443	506,119,531	41,152,218	24,480,391	44,394,712	244,529,224	151,562,986
Total	349,446,443	506,119,531	41,152,218	24,480,391	44,394,712	244,529,224	151,562,986

* Before fair value hedging adjustment

(c) Market risk

Market risk is the risk that unfavorable movements in market variables, such as interest rates, equity prices, underlying assets, foreign exchange rates, and other financial variables will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and monitor risk exposure and to ensure that such exposure does not exceed acceptable limits, thus jeopardizing returns.

Foreign currency risk

The Corporation incurs foreign currency risk when the value of its assets and liabilities denominated in currencies other than the U.S. dollar is affected by exchange rate variations, which are recognized in profit or loss.

As of December 31, 2018, all of the Corporation's assets and liabilities are denominated in U.S. dollars. Accordingly, no foreign currency risk is anticipated.

Interest rate risk

Interest rate risk is the risk that future cash flows and the value of underlying financial instruments will vary due to changes in market interest rates. Interest rate risk is managed by following an internal policy that limits the duration of equity to +/-1.5%. The ALCO Committee, with the oversight of the Risk Committee is responsible for monitoring interest rate risk.

Most of the Corporation's interest-earning assets and interest-bearing liabilities are re-priced at least quarterly. As of December 31, 2018, 15% (December 31, 2017: 8%) of interest-earning assets and 46% (December 31, 2017: 11%) of interest-bearing liabilities net of swaps are set to re-price after six months.

The following tables summarize the Corporation's exposure to interest rate risks based on duration of economic equity analysis.

(6) Financial Risk Management, continued

2018	Assets	Liabilities	Net
Present Value	411,613,325	(283,152,637)	128,460,687
Duration (excluding interest rate swap)	0.79	0.44	
Duration (including interest rate swap)	0.79	0.44	0.35
Floating rate as a % total	81.85%	45.95%	
Fixed rate as a % total	18.15%	54.05%	
Net Portfolio's Sensitivity to 100bp change in interest rate			1.55%
POLICY LIMIT:			+/- 1.50

2017	Assets	Liabilities	Net
Present Value	429,519,730	(297,324,962)	132,194,768
Sensitivity of variation	0.36	0.45	
Sensitivity of variation	0.36	0.45	-0.10
Floating rate as a % total	81.53%	81.68%	
Fixed rate as a % total	18.47%	18.32%	
Net Portfolio's Sensitivity to 100bp change in interest rate			0.14%
POLICY LIMIT:			+/- 1.50

A change of 100 basis points in interest rates would have increased or decreased the Corporation's net economic value by US$1,993,130, or 1.55%, which represents a change of +/- 24.42% of annualized net income as of December 31, 2018.

The following tables summarize the Corporation's exposure to interest rate risk. Assets and liabilities are classified based on the repricing or maturity date, whichever occurs first.

2018	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
Assets:							
Loans and investments, gross	57,158,794	86,498,109	89,256,422	77,266,507	4,721,071	52,017,415	366,918,318
Liabilities:							
Loans, gross	9,068,182	10,000,000	14,545,455	100,304,446	6,136,364	9,661,760	149,716,207
Net position	48,090,612	76,498,109	74,710,967	(23,037,939)	(1,415,293)	42,355,655	217,202,111

2017	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
Assets:							
Loans and investments, gross	84,242,334	77,911,223	89,859,097	61,322,042	2,092,330	45,229,787	360,656,813
Liabilities:							
Loans, gross	52,882,968	33,162,795	61,272,921	114,326,424	11,136,364	11,934,615	284,716,087
Net position	31,359,366	44,748,428	28,586,176	(53,004,382)	(9,044,034)	33,295,172	75,940,726

(6) Financial Risk Management, continued

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Corporation's operations and are faced by all business entities.

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development of internal controls and procedures to address operational risk is assigned to the Corporation's management. The Corporation has the following controls and procedures in place:

- Internal procedures for evaluating, approving, and monitoring loan operations
- Internal procedures for managing the liquid portfolio
- Internal procedures for acquiring derivative instruments
- Internal procedures for the minimum insurance requirement
- Environmental and social policies
- Compliance with internal policies and controls
- Code of conduct for employees and the Board of Directors and its Committees
- Corporate Compliance Manual to prevent money laundering activities
- Acquisition of insurance to mitigate operational risk.

The Risk Committee oversees management's program to limit or control operational risk and ensures that CIFI has in place an appropriate enterprise-wide process to identify, assess, monitor and control this risk. The Audit Committee monitors compliance with the Corporation's internal policies and procedures on a regular basis, based on reports made by the Corporate Compliance Officer.

(d) Capital management

The Corporation has adopted the Standardized Approach of Basel II, approved by the Board of Directors on December 13, 2018. The Corporation's capital structure is as follows:

	2018	**2017**
Tier 1 capital	97,676,575	98,775,546
Total capital	97,676,575	98,775,546

(6) Financial Risk Management, continued

	2018	2017
Risk weight of 50%	101,500	0
Risk weight of 100%	370,019,878	361,598,771
Risk weight of 150%	34,679,761	18,766,989
Subtotal for Credit Risk	404,801,138	380,365,760
Concentration	201,556,636	203,347,626
Operational Risk	74,271,961	64,883,479
Risk - weighted assets	680,629,736	648,596,865
Capital adequacy	14.35%	15.23%
Required capital adequacy (established by the Board)	12.50%	12.50%

(7) Furniture, Equipment and Improvements

Furniture, equipment and improvements are summarized as follows:

	Furniture and Equipment	Property Improvements	Computer Equipment	Total
Cost:				
Balance at January 1, 2018	147,755	739,654	113,769	1,001,178
Additions	0	0	36,360	36,360
Sale	0	0	(3,586)	(3,586)
Balance at end of year	147,755	739,654	146,543	1,033,952
Accumulated depreciation:				
Balance at January 1, 2018	41,745	104,783	28,007	174,535
Expense of the year	29,414	73,964	30,359	133,737
Sale	0	0	(1,868)	(1,868)
Balance at end of year	71,159	178,747	56,498	306,404
Net balance	76,596	560,907	90,045	727,548

2017

	Furniture and Equipment	Property Improvements	Computer Equipment	Project in Progress	Total
Cost:					
Balance at January 1, 2017	147,755	739,654	59,220	132,259	1,078,888
Additions	0	0	54,549	0	54,549
Reclassifications	0	0	0	(132,259)	(132,259)
Balance at end of year	147,755	739,654	113,769	0	1,001,178
Accumulated depreciation:					
Balance at January 1, 2017	12,331	30,819	8,837	0	51,987
Expense of the year	29,414	73,964	19,170	0	122,548
Balance at end of year	41,745	104,783	28,007	0	174,535
Net balance	106,010	634,871	85,762	0	826,643

(7) Furniture, Equipment and Improvements, continued

During the year ended December 31, 2017 the Corporation reclassified US$132,259 to other assets from project in progress upon closing the implementation of new systems that are considered intangible assets.

As of December 31, 2018 the Corporation made the acquisition of an intangible asset recorded as other assets for an amount of US$89,144, generated an amortization of US$28,229 during the year then ended.

(8) Loans Payable

Loans payable, net of origination costs (commissions paid) are as follows:

	Maturity	2018	2017
Foreign Financial Institutions			
Central American Bank for Economic Integration	2018	0	7,289,150
Opec Fund for International Development (OFID)	2018	0	2,307,694
Itau Corpbanca	2018	0	6,666,667
Norwegian Investment Fund for Developing Countries	2018	0	25,000,000
German Investment Corporation (KFW DEG)	2019	2,307,692	4,615,385
Inter-American Development Bank	2019	0	22,371,128
Corporación Andina de Fomento	2019	0	25,000,000
Corporación Andina de Fomento - Syndicate	2020	39,428,571	59,142,857
Bancaribe Curacao Bank NV	2020	10,000,000	10,000,000
Occidental Bank (Barbados) Ltd.	2020	5,000,000	0
Entrepreneurial Development Bank (FMO)	2020	0	27,000,000
German Investment Corporation (KFW DEG)	2022	25,000,000	0
Global Climate Partnership Fund	2022	23,000,000	23,000,000
Opec Fund for International Development (OFID)	2022	9,545,455	12,272,727
Caribbean Development Bank	2024	11,934,489	14,207,343
	Maturity	**2018**	**2017**
Local Financial Institutions			
MMG Bank, Corp.	2019	10,000,000	10,000,000
Banco Internacional de Costa Rica, S. A.	2019	8,500,000	16,608,457
Banco Pichincha Panamá, S. A.	2019	5,000,000	10,000,000
Banco Internacional de Costa Rica, S. A.	2019	0	9,234,679
		149,716,207	284,716,087
Deferred costs		(1,368,998)	(2,142,525)
Total		148,347,209	282,573,562

The effective interest rates on loans with financial entities range between 3.07% and 6.25% per annum (2017: between 2.77% and 5.50%).

(8) Loans Payable, continued

The following is a detail of the loans payable outstanding, undrawn balance of committed lines of credit and undrawn balance of uncommitted lines of credit as of December 31, 2018 and December 31, 2017:

	2018	2017
Loans payable outstanding, gross	149,716,207	284,716,087
Undrawn balance of committed lines of credit	25,000,000	25,000,000
Undrawn balance of uncommitted lines of credit	68,500,000	45,867,714

See note 6.b. for information on outstanding contractual maturities of borrowings. The Corporation has never had any defaults of principal, interest or other covenant breaches with respect to its loans payable.

(9) Bonds

Through Resolution SMV-691-17 of the Superintendency of the Securities Market, on December 20, 2017, the public offering of a corporate bonds program in Panama was made, with a nominal value of US$100,000,000. The corporate bonds (bonds) were issued in nominative titles, rotating, registered and without coupons, in denominations of US$1,000 and their multiples. The bonds will pay interest quarterly and may not be redeemed early by the issuer.

The terms and conditions of the bonds issued by the Corporation are detailed below:

Bonds	Nominal Interest Rate	Maturity Date	2018 Carrying Amount
Series A	5.00%	2021	10,000,000
Series B	5.50%	2023	5,000,000
Series C	6.25%	2025	12,934,000
Series D	5.38%	2023	5,400,000
Series E	6.25%	2025	2,000,000
Series F	6.13%	2025	2,000,000
Series G	6.08%	2024	17,500,000
Series H	6.25%	2025	7,500,000
Series I	6.25%	2025	7,500,000
Series J	6.08%	2024	27,500,000
Series K	5.75%	2023	1,500,000
Series L	5.75%	2023	566,000
			99,400,000
More: re-measurement hedged			1,808,384
Total			101,208,384

(10) Commercial Paper

Through Resolution SMV-690-17 of the Superintendency of the Securities Market, on December 20, 2017, the public offering of a commercial paper program in Panama (Valores Comerciales Negociables - VCN) was made, with a nominal value of US$50,000,000. The commercial negotiable securities (VCN) were issued in nominative titles, rotating, registered and without coupons, in denominations of US$1,000 and their multiples. The VCN will pay interest quarterly and may not be redeemed early by the issuer.

The terms and conditions of the commercial paper issued by the Corporation are detailed below:

VCN	Nominal Interest Rate	Maturity Date	2018 Carrying Amount	2017 Carrying Amount
Series A	3.50%	2018	0	5,000,000
Series C	4.00%	2019	13,000,000	0
Series D	4.00%	2019	3,000,000	0
Series E	4.00%	2019	4,000,000	0
Series F	3.75%	2019	1,075,000	0
Series G	4.00%	2019	2,000,000	0
Series H	4.00%	2019	9,000,000	0
Series I	4.00%	2019	1,118,000	0
			33,193,000	5,000,000

(11) Equity

Share capital

The Corporation's share capital is comprised of 54,000,001 common shares of US$1 par value, for a total of US$54,000,001.

The share capital is distributed as follows:

	2018		2017	
	Acquired Capital	Ownership Interest	Acquired Capital	Ownership Interest
Norwegian Investment Fund for Developing Countries	17,263,819	31.97%	17,263,819	31.97%
Banistmo, S. A.	6,122,697	11.34%	6,122,697	11.34%
Central American Bank for Economic Integration	6,122,697	11.34%	6,122,697	11.34%
Caixa Banco de Investimento, S. A.	6,122,697	11.34%	6,122,697	11.34%
International Finance Corporation	4,285,888	7.94%	4,285,888	7.94%
Caribbean Development Bank	3,673,618	6.80%	3,673,618	6.80%
Finnish Fund for Industrial Cooperation Ltd.	3,673,618	6.80%	3,673,618	6.80%
Itau Unibanco, S. A.	3,673,618	6.80%	3,673,618	6.80%
Banco Pichincha C. A.	3,061,349	5.67%	3,061,349	5.67%
	54,000,001		54,000,001	

(11) Equity, continued

Reserve

- *Fair value reserve:*
  The fair value reserve included the cumulative net change in the fair value of investment securities until the securities were derecognized.

(12) Basic Earnings Per Share

The calculation of basic earnings per share was based on the profit attributable to shareholders and the weighted average number of shares for the year, as follows:

	2018	2017
Net income	8,160,268	7,776,507
Number of shares	54,000,001	54,000,001
Earnings per share	0.15	0.14

(13) Income Taxes

Panama

The income tax returns of the Corporation are subject to examination by the local income tax authorities for the last three (3) years, in accordance with current Panamanian tax regulations.

In accordance with current tax regulations, companies incorporated in Panama are exempt from income taxes on profits derived from foreign operations. They are also exempt from income taxes on profits derived from interest earned on deposits with banks operating in Panama, and investment securities issued by the Government of Panama and securities listed with the Superintendency of the Securities Market and traded through the Panama Stock Exchange.

For corporations in Panama, the current interest tax rate is 25% of taxable net income.

Law No. 8 of March 15, 2010 introduced the method of taxation for presumptive income tax, requiring a legal person who earns income in excess of one million five hundred thousand dollars (US$1,500,000) to determine its tax base as the amount greater of: (a) the net taxable income calculated by the ordinary method established in the Tax Code and (b) the net taxable income resulting from applying four point sixty-seven percent (4.67%) on total gross income.

Following is a reconciliation of net financial income before income tax to net taxable income:

Panama	2018	2017
Net financial income before income tax	8,640,296	7,594,397
Foreign revenue, exempt and non-taxable, net of costs and expenses	(6,720,184)	(6,914,298)
Net taxable income	1,920,112	680,099
Income tax	480,028	170,025

(13) Income Taxes, continued

United States of America (U.S.)

The income tax returns of the Corporation are subject to examination by the state and federal income tax authorities for the last six (6) years, in accordance with current U.S. tax regulations. The Corporation has filed a final income tax return to the IRS in 2017.

For purposes of determining taxable income, the income effectively connected to business transactions performed in the United States is subject to income tax. Generally, when a foreign corporation engages in a trade or business in the United States, all income from sources within the United States connected with the conduct of that trade or business is considered to be Effectively Connected Income (ECI).

The provision for income taxes for 2017 was calculated by applying an estimate of the annual effective tax rate for the full fiscal year to income for the reporting period. A tax rate of 34% was used to calculate federal income taxes and a tax rate of 6% to calculate Virginia state tax for the year ended December 31, 2017.

Our calculation of the Branch Profit Tax provision is determined under IRC 884(a) which treats a U.S. branch of a foreign corporation as if it were a U.S. subsidiary of a foreign corporation for purposes of taxing profit repatriations. As such, under IRC 884(a), earnings and profits of a branch of a foreign corporation are deemed remitted to its home office. The U.S. branch would be subject to a dividend withholding tax on payments to its foreign parent of 30% of profit repatriations. Since December 2017, the Corporation does not have assets that qualify for the calculation of the Branch Profit Tax provision.

Following is a reconciliation of net financial income before income tax to net taxable income:

	2018	2017
U.S.		
Net financial income before income tax	8,640,296	7,594,397
Foreign revenue, exempt and non-taxable, net of costs and expenses	(8,640,296)	(7,073,407)
Net taxable income per Virginia state tax	0	520,990
Current Virginia state tax expense, estimated	0	31,259
Net taxable income per Federal income tax	0	489,731
Current Federal income tax expense, estimated	0	166,508
Total U.S. income taxes	0	197,767
Total Panama and U.S. income taxes	480,028	367,792

The effective tax rate of the Corporation for the year ended December 31, 2018 was 5.56% (December 31, 2017: 4.52%). The Corporation has not recognized any deferred income taxes, as future taxable profit does not currently provide convincing evidence that those benefits will be fully or partially used.

(14) Financial Assets and Financial Liabilities

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Corporation financial assets and financial liabilities as at January 1, 2018:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Loans receivable	Loans and receivables	Amortized cost	349,446,443	344,701,254
Total financial assets			349,446,443	344,701,254

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial liabilities				
Loans payable and debt commercial paper issued	Amortized cost	Amortized cost	287,573,562	287,573,562
Total financial liabilities			287,573,562	287,573,562

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018.

	IAS 39 carrying amount December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying amount January 1, 2018
Financial assets				
Amortized cost				
Loans receivable				
Opening balance	349,446,443			
Remeasurement			(4,745,189)	
Closing balance				344,701,254
Total amortized cost	349,446,443	0	(4,745,189)	344,701,254
Financial liabilities				
Amortized cost				
Loans payable and commercial paper issued				
Opening balance	287,573,562			
Closing balance				287,573,562
Total amortized cost	287,573,562	0	0	287,573,562

The following table analyses the impact of transition to IFRS 9 on retained earnings. There is no impact on other components of equity.

(14) Financial Assets and Financial Liabilities, continued

	Impact of adopting IFRS 9 at January 1, 2018
Retained earnings	
Closing balance under IAS 39 (December 31, 2017)	44,690,545
Reclassifications under IFRS 9	0
Recognition of expected credit losses under IFRS 9	(4,745,189)
Opening balance under IFRS 9 (January 1, 2018)	39,945,356

As of December 31, 2018, the Corporation has not recorded any allowance for losses on cash and cash equivalents, investment securities, accrued interest and other receivables upon the implementation of IFRS 9 because such amounts are not deemed as material.

(15) Derivatives Held for Risk Management Purposes

Interest rate derivatives

Management uses interest rate swaps to reduce interest rate risk on its liabilities (Bonds). The Corporation reduces its credit risk in respect of those swaps entered into by dealing with financially sound counterparty institutions.

As of December 31, 2018, the Corporation held the following interest rate swaps as hedging instruments in fair value hedges of interest risk.

	Maturity				
Risk category	**Less than 1 month**	**1-3 months**	**3 months – 1 year**	**1-5 years**	**More than 5 years**
Interest rate risk					
Hedge of issued bonds					
Notional amount (US$)	0	0	0	17,066,000	76,934,000
Average fixed interest rate	0	0	0	5.50%	6.18%
Average spread over Libor	0	0	0	2.66%	3.25%

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

	2018						
		Carrying amount					
US$	**Nominal amount**	**Assets**	**Liabilities**	**Line item in the consolidated statement of financial position where the hedging instrument is included**	**Change in fair value used for calculating hedge ineffectiveness**	**Ineffectiveness recognized in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**
Interest rate risk							
Interest rate swaps – hedge of issued bonds	94,000,000	1,981,746	0	Derivative assets held for risk management	1,981,746	173,362	Other income – gain on derivate instruments

(15) Derivatives Held for Risk Management Purposes, continued

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

2018					
Line item in the consolidated statement of financial position in which the hedged item is included	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Change value used for calculating hedge ineffectiveness
	Assets	Liabilities	Assets	Liabilities	
Bonds	0	94,000,000	0	(1,808,384)	(1,808,384)

The notional value of the above instruments has a specific amortization schedule over the life of the operation.

(16) Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Corporation determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Corporation measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

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

(16) Fair Value of Financial Instruments, continued

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premises used in estimating discount rates, bond and equity prices, and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Corporation uses widely recognized valuation models for determining the fair value of common and simpler financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining 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.

The financial instruments recorded at fair value by hierarchical level are as follows:

	2018	
	Carrying amount	Level 2
Derivative assets	1,981,746	1,981,746

The following table sets outs the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized:

	2018	
	Carrying amount	Fair value Level 3
Cash and cash equivalents	15,215,074	15,215,074
Investment securities	1,451,595	1,453,975
Loans receivable	354,494,289	394,944,276
Loans payable	148,347,209	151,515,348
Bonds	99,400,000	98,586,983
Commercial paper	33,193,000	33,050,307

(16) Fair Value of Financial Instruments, continued

	2017	
	Carrying amount	Fair value Level 3
Cash and cash equivalents	30,356,948	30,356,948
Loans receivable	349,446,443	399,162,781
Loans payable	282,573,562	292,305,117
Commercial paper	5,000,000	5,000,000

During December 31, 2018, there have not been transfers between Levels of the fair value hierarchy (December 31, 2017: no transfers between Levels).

Valuation techniques and data inputs used in measuring financial instruments categorized in Level 2 and Level 3 of the fair value hierarchy are as follows:

(a) Cash and cash equivalents
Cash and cash equivalents are measured at book value reported in the consolidated statement of financial position, which is considered a reasonable fair value estimated due to the characteristics and maturity of these instruments.

(b) Investment securities
Fair values are determined by using a model based on observable market data, such as: yield rates (LIBOR and OIS (Overnight Index Swap)).

(c) Loans receivable
Fair value of loans is determined by grouping loans into classes with similar financial characteristics. The fair value of each class of loans is calculated by discounting cash flows expected until maturity, using a discount market rate that reflects the inherent credit and interest rate risks. Assumptions related to credit, cash flows, and discounted interest rate risks are determined by management based on available market and internal information.

(d) Loans payable
Fair value of loans payable is calculated by discounting committed cash flows at current market rates for loans with similar maturities.

(e) Bonds and commercial paper
Fair values of bonds and commercial paper is calculated by discounting committed cash flows at current market rates for instruments with similar maturities.

(17) Commitments and Contingencies

In the normal course of business, the Corporation maintains off-balance sheet commitments and contingencies that involve a certain degree of credit and liquidity risk.

As of December 31, 2018, the Corporation has commitments and contingencies in the amount of US$46,563,788 (December 31, 2017: US$44,317,746), corresponding to credits pending disbursement to various entities.

Based on management's best knowledge, the Corporation is not involved in any litigation that is likely to have a significant adverse effect on its business, consolidated financial position or consolidated financial performance.