

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

Consolidated Financial Statements

September 30, 2017

(With Independent Accountants' Compilation Report)

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

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

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

We have compiled the accompanying consolidated financial statements of Corporación Interamericana para el Financiamiento de Infraestructura, S. A. and Subsidiary based on the information you have provided. These consolidated financial statements comprise the consolidated statement of financial position of Corporación Interamericana para el Financiamiento de Infraestructura, S. A. and Subsidiary as of September 30, 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory information.

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), *Compilation Engagements*.

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

These consolidated financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these consolidated financial statements. Accordingly, we do not express an audit opinion or a review conclusion on whether these consolidated financial statements are prepared in accordance with IFRS.

Other matter

The financial statements of Corporación Interamericana para el Financiamiento de Infraestructura, S. A. as of December 31, 2016 and for the year then ended were audited by us and we expressed an unqualified opinion on those financial statements dated February 21, 2017.

KPMG

November 9, 2017
Panama, Republic of Panama

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

(Panama, Republic of Panama)

Consolidated Statement of Financial Position

September 30, 2017

(Expressed in US Dollars)

	<u>Note</u>	<u>(Unaudited)</u> <u>September 30,</u> <u>2017</u>	<u>(Audited)</u> <u>December 31,</u> <u>2016</u>
<u>Assets</u>			
Cash and cash equivalents	5	26,754,744	12,247,943
Investment securities, net	5	242,831	455,304
Loans receivable, net	5	321,635,299	282,932,031
Accrued interest receivable		4,701,869	4,802,066
Assets held-for-sale	5	3,189,870	3,814,221
Furniture, equipment and improvements, net	6	841,297	1,026,901
Other assets	5	3,522,995	4,425,697
Total assets		<u>360,888,905</u>	<u>309,704,163</u>
<u>Liabilities</u>			
Loans payable, net	7	263,782,411	215,565,030
Accrued interest payable		2,217,431	1,582,267
Other accounts payable		1,307,510	1,389,680
Total liabilities		<u>267,307,352</u>	<u>218,536,977</u>
<u>Equity</u>			
Share capital	8	54,000,001	54,000,001
Additional paid-in capital		85,000	85,000
Reserves		0	5,044
Retained earnings		39,496,552	37,077,141
Total equity		<u>93,581,553</u>	<u>91,167,186</u>
Total liabilities and equity		<u>360,888,905</u>	<u>309,704,163</u>
<u>Commitments and contingencies</u>			
Unfunded risk participations	13	0	15,700,000
Loans pending disbursement	13	40,880,065	59,100,000
Undrawn balance of credit facilities	5, 7	62,789,450	39,320,017
Notional amount on swaps	11	0	2,222,222

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
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(Panama, Republic of Panama)

Consolidated Statement of Comprehensive Income

For the nine-month period ended September 30, 2017

(Expressed in US Dollars)

		(Unaudited)	
	Note	September 30, 2017	September 30, 2016
Interest income:			
On cash and cash equivalents		42,625	10,619
On investment securities		0	483,821
On loans receivable		18,710,719	14,877,343
Total interest income		<u>18,753,344</u>	<u>15,371,783</u>
Interest expense:			
On loans payable		<u>(9,376,233)</u>	<u>(7,063,196)</u>
Total interest expense		<u>(9,376,233)</u>	<u>(7,063,196)</u>
Net interest income		<u>9,377,111</u>	<u>8,308,587</u>
Other income (expense):			
Other fees and commissions, net		3,597,217	3,636,051
Gain (loss) on derivative instruments		2,759	(9,960)
Total other income		<u>3,599,976</u>	<u>3,626,091</u>
Operating income		12,977,087	11,934,678
Provision for loan losses	5	(2,660,109)	(823,701)
Impairment loss on investment securities	5	(212,473)	(328,998)
Impairment loss on assets held-for-sale	5	(624,351)	(3,691,757)
Other provisions		(63,582)	0
Depreciation expense	6	(91,099)	0
Personnel expenses		(3,985,754)	(3,768,977)
Other administrative expenses		<u>(2,480,511)</u>	<u>(2,279,102)</u>
Net income before tax		2,859,208	1,042,143
Income taxes	10	<u>(276,695)</u>	<u>(1,035,533)</u>
Net income for the period		<u>2,582,513</u>	<u>6,610</u>
Other comprehensive income:			
Items that are or may be reclassified to profit or loss:			
Fair value reserve:			
Net changes in fair value		(2,285)	(1,464,244)
Net amount transferred to profit or loss		<u>(2,759)</u>	<u>9,960</u>
Other comprehensive loss for the period		<u>(5,044)</u>	<u>(1,454,284)</u>
Total comprehensive income (loss) for the period		<u>2,577,469</u>	<u>(1,447,674)</u>
Basic earnings per share	9	<u>0.05</u>	<u>0.00</u>

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

**CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE
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Consolidated Statement of Changes in Equity

For the nine-month period ended September 30, 2017

(Expressed in US Dollars)

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Fair value reserve</u>	<u>Reserves Legal reserve</u>	<u>Total reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance at December 31, 2015 (audited)	54,000,001	85,000	(496,151)	2,850,815	2,354,664	32,452,941	88,892,606
Net income for the period	0	0	0	0	0	6,610	6,610
Other comprehensive income							
Net changes in fair value	0	0	(1,464,244)	0	(1,464,244)	0	(1,464,244)
Net amount transferred to profit or loss	0	0	9,960	0	9,960	0	9,960
Total other comprehensive loss	0	0	(1,454,284)	0	(1,454,284)	0	(1,454,284)
Total comprehensive loss (income) for the period	0	0	(1,454,284)	0	(1,454,284)	6,610	(1,447,674)
Transactions with owners of the Corporation							
Complementary tax, Panama	0	0	0	0	0	(107,342)	(107,342)
Dividends paid	0	0	0	0	0	(1,040,086)	(1,040,086)
Balance at September 30, 2016 (unaudited)	<u>54,000,001</u>	<u>85,000</u>	<u>(1,950,435)</u>	<u>2,850,815</u>	<u>900,380</u>	<u>31,312,123</u>	<u>86,297,504</u>
Balance at December 31, 2016 (audited)	54,000,001	85,000	5,044	0	5,044	37,077,141	91,167,186
Net income for the period	0	0	0	0	0	2,582,513	2,582,513
Other comprehensive income							
Net changes in fair value	0	0	(2,285)	0	(2,285)	0	(2,285)
Net amount transferred to profit or loss	0	0	(2,759)	0	(2,759)	0	(2,759)
Total other comprehensive loss	0	0	(5,044)	0	(5,044)	0	(5,044)
Total comprehensive (loss) income for the period	0	0	(5,044)	0	(5,044)	2,582,513	2,577,469
Transactions with owners of the Corporation							
Complementary tax, Panama	0	0	0	0	0	(163,102)	(163,102)
Balance at September 30, 2017 (unaudited)	<u>54,000,001</u>	<u>85,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>39,496,552</u>	<u>93,581,553</u>

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
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Consolidated Statement of Cash Flows

For the nine-month period ended September 30, 2017

(Expressed in US Dollars)

	(Unaudited)	
	September 30, 2017	September 30, 2016
Cash flows from operating activities		
Net income for the period	2,582,513	6,610
Adjustments for:		
Provision for loan losses	2,660,109	823,701
Impairment loss on investment securities	212,473	328,998
Impairment loss on assets held-for-sale	624,351	3,691,757
Other provisions	63,582	0
Depreciation expense	91,099	0
Net interest income	(9,377,111)	(8,308,587)
Income tax expense	276,695	1,035,533
	<u>(2,866,289)</u>	<u>(2,421,988)</u>
Changes in:		
Other assets	1,490,922	(2,302,931)
Other accounts payable	(358,865)	(1,511,919)
Derivative liabilities held for risk management	0	(3,203)
Loan collections	116,935,403	63,605,134
Loan disbursements	<u>(158,298,780)</u>	<u>(72,910,155)</u>
	<u>(40,231,320)</u>	<u>(13,123,074)</u>
Income tax paid	(524,587)	(418,906)
Interest received	18,853,541	13,851,232
Interest paid	<u>(8,741,069)</u>	<u>(6,891,073)</u>
	<u>9,587,885</u>	<u>6,541,253</u>
Net cash flows from operating activities	<u>(33,509,724)</u>	<u>(9,003,809)</u>
Cash flows from investing activities		
Acquisition of furniture, equipment and improvements	<u>(37,754)</u>	<u>0</u>
Net cash flows from investing activities	<u>(37,754)</u>	<u>0</u>
Cash flows from financing activities		
Proceeds from loans payable	147,855,000	120,875,000
Repayment of loans payable	(99,637,619)	(93,625,777)
Complementary tax paid	(163,102)	(107,342)
Dividends paid	0	(1,040,086)
Net cash flows from financing activities	<u>48,054,279</u>	<u>26,101,795</u>
Net Increase in cash and cash equivalents	14,506,801	17,097,986
Cash and cash equivalents at the beginning of the period	<u>12,247,943</u>	<u>8,672,736</u>
Cash and cash equivalents at the end of the period	<u><u>26,754,744</u></u>	<u><u>25,770,722</u></u>

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

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Notes to Consolidated Financial Statements

September 30, 2017

(Expressed in US Dollars)

(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; 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, Avenida Paseo Roberto Motta, Costa del Este, Panama City, Republic of Panama.

The Corporation owns or controls the following subsidiary company:

	<u>Activity</u>	<u>Incorporation Country</u>	<u>Controlling Participation 2017</u>
CIFI SEM, S. A.	Personnel Administration	Panama	100%

The consolidated financial statements were authorized for issuance by management of the Corporation on November 9, 2017.

(2) Basis of Preparation

(a) *Statement of compliance*

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

(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.

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(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 5
- Impairment of assets held-for-sale – note 5
- Derivatives held for risk management purposes – note 11
- Fair value of financial instruments – note 12.

(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) *Subsidiary*

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 subsidiary, 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.

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 subsidiary are eliminated in preparing the consolidated financial statements.

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(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

The Corporation recognizes loans receivable and loans payable on the date in which they are originated. The purchases and sales of financial assets are recognized on the trade date at which the Corporation commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities carried at fair value through profit or loss) are recognized on the trade date in which the Corporation becomes a party to the contractual terms of the instrument.

Financial assets and liabilities are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

(ii) Classification

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.

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(Panama, Republic of Panama)

Notes to Consolidated Financial Statements

(iii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated financial statements when the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expense are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

(iv) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the amount at maturity, minus any reduction for impairment.

(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 sufficient 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 of 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.

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(vi) Identification and measurement of impairment

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;
- 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 recognized previously 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.

(vii) 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.

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(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 consolidated 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 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 periodic 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.

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 of the derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the consolidated statement of comprehensive income as the hedged item).

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, then hedge accounting is discontinued prospectively. Any adjustment up to the point of discontinuation 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*

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.

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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.

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.

Held-to-maturity:

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.

(g) *Loans receivable*

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.

(h) *Allowance for loan losses*

In determining the allowance for loan losses, 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.

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

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(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.

Depreciation and amortization expenses of property, 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 is 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) *Other accounts payable*

Other accounts payable are carried at amortized cost.

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

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(m) Income tax

Estimated income tax is the expected tax payable on the 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 September 30, 2017.

(n) Income and expense recognition

(i) Interest income and expense

Interest income and expense is recognized in profit or loss as it accrues, considering the effective interest method. Interest income and expenses 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.

(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 is included in other operating income, arises from services provided by the Corporation, including advisory services and disbursement fees, and is recognized as the related services are performed.

Other fee and commission expense is included in other administrative expenses and mainly relate to transaction and service fees, which are expensed as the services are received.

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- (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) *New standards and interpretations not yet adopted*
At the reporting date, there are standards, amendments and interpretations which are not effective for the period ended September 30, 2017 and, consequently, have not been applied in preparing these consolidated financial statements.

- IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes, among others, revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

- IFRS 15 *Revenue from Contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Corporation is in the process of evaluating the potential effect of these standards in its consolidated financial statements.

(4) **Balances and Transactions with Related Parties**

For the period ended September 30, 2017, the Corporation entered transactions with parties that are considered to be related.

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

<u>Type of entity</u>	<u>Relationship</u>	<u>Deposits Due from Banks</u>	<u>September 30, 2017</u>		<u>Interest Expenses on Loans Payable</u>
			<u>Liabilities-Loans and Accrued Interest Payable</u>	<u>Interest Income on Deposits</u>	
Legal entities	Shareholders	<u>3,527</u>	<u>52,066,925</u>	<u>3,521</u>	<u>1,832,655</u>

<u>Type of entity</u>	<u>Relationship</u>	<u>Deposits Due from Banks</u>	<u>December 31, 2016</u>		<u>Interest Expenses on Loans Payable</u>
			<u>Liabilities-Loans and Accrued Interest Payable</u>	<u>Interest Income on Deposits</u>	
Legal entities	Shareholders	<u>260,732</u>	<u>35,190,670</u>	<u>9,239</u>	<u>1,419,858</u>

The Corporation has access to US\$7,124,450 (December 31, 2016: US\$3,570,017) of undisbursed committed and uncommitted lines of credit with related parties.

Members of the Board of Directors have received remuneration of US\$59,183 (September 30, 2016: US\$49,750) for attending meetings during the year.

For the period ended September 30, 2017 personnel expenses include salaries and benefits paid to key executives for US\$726,616 (September 30, 2016: US\$726,619).

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): Employees may contribute US\$10,500, an amount that is reviewed annually (September 30, 2016: US\$12,500), while the Corporation contributes 3% (September 30, 2016: 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.

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

(5) 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, and operating risks.

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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 Credit Committee (which also serves as an Asset and Liability Committee) and the Audit Committee. Both 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 Audit Committee monitors compliance with the Corporation's internal controls and policies and reviews the effectiveness of the risk management framework. The Audit Committee is assisted in its role by the Chief Financial Officer, who periodically reviews internal controls and procedures and reports the results to the Audit Committee.

(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.

(b) *Liquid portfolio*

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 Superintendence 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-.

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- 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.

Investment Portfolio

The investment of any security of the investment portfolio, at the time of purchase, shall have, as a minimum, a “BB-” long-term foreign currency rating from Moody’s, Standard & Poor’s, or Fitch Ratings, Inc. In spite of the internal policy that limits the investment portfolio to a maximum of 75% of total equity, the Corporation’s intention is to keep the investment portfolio to a minimum or zero. For reporting purposes, the Corporation consolidates all elements related to credit risk exposure, e.g. credit risk by economic unit, country risk, and sector risk. The Corporation shall have the firm intention to buy and hold the investment securities to maturity or for an unspecified period of time until they may be sold in response to liquidity needs according to the Contingency Liquidity Plan, as defined in its Liquidity Policy. The investment securities portfolio will not be used for trading or speculative purposes.

At September 30, 2017 and December 31, 2016, 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.

Loans receivable and investment securities are as follows:

<u>Loans and investment securities, net</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Available-for-sale investment portfolio:		
Par value	8,094,270	8,094,270
Impairment losses on investment securities	<u>(7,851,439)</u>	<u>(7,638,966)</u>
Investment securities, net	<u>242,831</u>	<u>455,304</u>
Current loans	330,774,863	289,091,199
Allowance for loan losses	(7,425,767)	(4,765,658)
Deferred income	<u>(1,713,797)</u>	<u>(1,393,510)</u>
Loans, net	<u>321,635,299</u>	<u>282,932,031</u>
Total investments and loans (par value)	<u>338,869,133</u>	<u>297,185,469</u>
Total investments and loans, net	<u>321,878,130</u>	<u>283,387,335</u>

The loan portfolio includes the financing of project bonds totaling US\$2,845,541 (December 31, 2016: US\$3,299,664).

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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 Credit Committee 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. 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.

The average loan portfolio risk rating is BB+ as of September 30, 2017 (December 31, 2016: average loan portfolio risk rating was B+) based on the Corporation's standards, which are not necessarily comparable to international credit rating standards.

Portfolio risk ratings are as follows:

<u>September 30, 2017</u>	<u>Loans</u>		<u>Investment securities</u>	
	<u>Risk rating</u>	<u>Gross</u>	<u>Net (*)</u>	<u>Nominal Value</u>
AAA / A-	25,549,927	25,549,927	0	0
BBB+ / BBB-	20,117,829	20,117,829	0	0
BB+ / BB-	136,290,537	136,060,827	0	0
B+ / B-	126,815,897	124,314,135	0	0
<= CCC+	<u>22,000,673</u>	<u>17,306,378</u>	<u>8,094,270</u>	<u>242,831</u>
	<u>330,774,863</u>	<u>323,349,096</u>	<u>8,094,270</u>	<u>242,831</u>

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<u>December 31, 2016</u>	<u>Loans</u>		<u>Investment securities</u>	
<u>Risk rating</u>	<u>Gross</u>	<u>Net (*)</u>	<u>Risk rating</u>	<u>Gross</u>
AAA / A-	913,043	913,043	0	0
BBB+ / BBB-	14,764,211	14,764,211	0	0
BB+ / BB-	109,201,538	108,989,875	0	0
B+ / B-	153,912,407	150,485,917	0	0
<= CCC+	<u>10,300,000</u>	<u>9,172,495</u>	<u>8,094,270</u>	<u>455,304</u>
	<u>289,091,199</u>	<u>284,325,541</u>	<u>8,094,270</u>	<u>455,304</u>

(*) Net of impairment allowance.

As of September 30, 2017, the Corporation has a past due loan for US\$9,751,760 (December 31, 2016: no past due loans); the non-accrual interest for this past due loan amounts to US\$404,681.

To secure some of its loans payable, at September 30, 2017 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 37.10% (December 31, 2015: 49.07%) of the total assets.

Changes in the allowance for loan losses are as follows:

	Nine - month period ended September 30, <u>2017</u>	Year ended December 31, <u>2016</u>
Balance at beginning of period	(4,765,658)	(3,920,332)
Provision for the period	<u>(2,660,109)</u>	<u>(845,326)</u>
Balance at end of period	<u>(7,425,767)</u>	<u>(4,765,658)</u>

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

	Nine - month period ended September 30, <u>2017</u>	Year ended December 31, <u>2016</u>
Balance at beginning of period	(7,638,966)	(5,472,313)
Allowance for the period	(212,473)	(1,982,477)
Unamortized discounts reclassified to allowance	<u>0</u>	<u>(184,176)</u>
Balance at end of period	<u>(7,851,439)</u>	<u>(7,638,966)</u>

As of September 30, 2017, the Corporation has not recorded any allowance for losses on accrued interest and accounts receivable.

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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% (December 31, 2016: 97%) as follows:

	September 30, <u>2017</u>	December 31, <u>2016</u>
Mortgage on fixed assets	132,580,998	83,897,070
Assets held in trust	171,680,010	127,401,556
Pledge on movable assets	3,000,000	10,965,000
Corporate guarantor	19,963,055	57,142,857
Unsecured	<u>3,550,800</u>	<u>9,684,716</u>
	<u>330,774,863</u>	<u>289,091,199</u>

The investment securities portfolio for US\$8,094,270 (December 31, 2016: US\$8,094,270) is secured with mortgage on fixed assets. The impairment of this investment does not consider the mortgage because its realizable value and execution process are uncertain.

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

Loans and investment securities earn interest at rates ranging between 3.37% and 15.00% per annum (December 31, 2016: 2.85% 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 15% of total equity. By exception, CIFI may exceed the 15% limit, up to a maximum of 18%, provided that it is not a subordinated loan, and an amount at least equivalent to the excess of the 15% is covered by any of the following guaranties at realization value: First pledge on: i) Non-subordinated debt instruments issued by investment grade institutions or companies with market values updated once per month; ii) mortgage on fixed assets, appraised at the date of the loan disbursement, representing at least 120% of the loan financed by CIFI; iii) Letters of credit issued by financial institutions with a minimum "BB-" long - term debt foreign currency rating according to Moody's, Standard & Poor's or Fitch Ratings, Inc. As of September 30, 2017, five (5) groups (December 31, 2016: four (4) groups) of borrowers have similar economic interests exceeding the internal limit.

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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 September 30, 2017		% of total equity December 31, 2016	
	Number of exposures	U.S. dollars	Number of exposures	U.S. dollars
0 to 4.99%	18	51,577,239	15	42,841,649
5 to 9.99%	11	77,238,097	14	89,164,015
10 to 14.99%	11	126,259,527	9	96,585,535
15 to 18%	<u>5</u>	<u>75,700,000</u>	<u>4</u>	<u>60,500,000</u>
	<u>45</u>	<u>330,774,863</u>	<u>42</u>	<u>289,091,199</u>

- 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 September 30, 2017, the Corporation complied with country risk exposure limits.

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

	September 30, 2017	December 31, 2016
Brazil	50,881,262	25,720,179
Colombia	40,025,168	22,349,014
Ecuador	37,901,244	44,997,575
Honduras	29,148,914	28,576,869
Peru	26,853,846	28,400,000
Argentina	25,790,301	14,380,000
Panama	23,145,541	17,779,664
Chile	17,141,363	10,306,770
Nicaragua	15,795,749	16,896,009
Paraguay	15,500,000	15,500,000
Belize	14,000,000	10,000,000
Uruguay	13,549,927	10,000,000
Jamaica	11,870,953	7,264,115
Mexico	9,850,983	21,630,578
Guatemala	6,416,047	6,000,000
Costa Rica	997,835	2,993,506
Haiti	0	5,000,000
Dominican Republic	0	7,726,190
Saint Lucia	0	1,665,000
Total loans and investment portfolio	<u>338,869,133</u>	<u>297,185,469</u>
Assets held-for-sale (Panama)	<u>3,189,870</u>	<u>3,814,221</u>
Total	<u>342,059,003</u>	<u>300,999,690</u>

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- Sector risk: The Corporation limits its concentration in any sector to 50% of the corresponding country risk limit. As of September 30, 2017 the Corporation complied with sector risk exposure limits. Most of the renewable energy projects in the portfolio have fixed price contracts, which mitigate the potential adverse impact of low oil prices.

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

	September 30, <u>2017</u>	December 31, <u>2016</u>
Solar Power	53,951,327	63,780,273
Airports and Seaports	52,139,046	47,844,003
Gas & Oil	51,728,297	25,671,831
Wind Power	35,602,937	33,869,986
Hydro Power & Hydro Power (Mini)	24,617,799	20,294,171
Construction & Engineering	22,155,708	16,479,893
Co-generation (Biomass)	16,028,125	12,212,500
Telecommunications	15,000,000	20,165,000
Water & Sanitation	14,200,000	0
Tourism	11,853,846	13,400,000
Roads, Railroads and Other	11,609,783	16,187,925
Thermo Power	10,025,643	11,480,359
Logistical Centers and Other	7,000,000	7,000,000
Infrastructure Conglomerates	6,416,047	0
Geothermal	5,542,739	5,806,021
Power Distribution	<u>997,836</u>	<u>2,993,507</u>
Total loans and investment portfolio	338,869,133	297,185,469
Assets held-for-sale (Thermo Power)	<u>3,189,870</u>	<u>3,814,221</u>
Total	<u><u>342,059,003</u></u>	<u><u>300,999,690</u></u>

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\$678,683 that corresponded to other accounts receivable.

During the period ended September 30, 2017 write-downs of US\$624,351 on the asset held-for-sale were made to lower its carrying amount to its value in use (year ended December 31, 2016: US\$3,235,961).

The carrying value of the asset held for sale as of September 30, 2017 is US\$3,189,870 (December 31, 2016: US\$3,814,221). As of September 30, 2017, the asset is being actively traded.

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

	Nine – month period ended September 30, <u>2017</u>	Year ended December 31, <u>2016</u>
Balance at beginning of the period	(4,289,462)	(1,053,501)
Allowance for the period	<u>(624,351)</u>	<u>(3,235,961)</u>
Balance at end of the period	<u>(4,913,813)</u>	<u>(4,289,462)</u>

In addition, commissions receivable from corporate services rendered to third parties, amounting to US\$2,463,225 (December 31, 2016: US\$3,588,034), which are presented as other assets, are classified as performing receivables.

Cash and cash equivalent balances are fully placed at well-recognized local and international banking institutions.

(c) *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 will always have 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 each business unit 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.

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. The Credit Committee monitors the Corporation's liquidity position by evaluating the following requirements established in the Corporation's current liquidity policy:

- 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.

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As of September 30, 2017, the Corporation had US\$26,754,744 (December 31, 2016: US\$12,247,943) in cash and cash equivalents, and maintains undisbursed and available balances of committed credit facilities with financial institutions for US\$25,875,000 (December 31, 2016: US\$35,750,000) with tenors between 2017 and 2020 (December 31, 2016: 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\$36,914,450 (December 31, 2016: US\$3,570,017). (See note 7).

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 180 days ≤ 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.

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

<u>September 30, 2017</u>	<u>1 to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 180 days</u>	<u>181 to 365 days</u>	<u>Over 365 days</u>	<u>Total</u>
Assets							
Cash and cash equivalents	26,754,744	0	0	0	0	0	26,754,744
Loans and investments, gross	11,218,154	9,061,973	1,921,656	22,253,259	12,604,995	281,809,096	338,869,133
Accrued interest receivable	1,175,094	1,159,329	1,797,419	410,666	159,361	0	4,701,869
Assets held-for-sale	0	0	0	0	0	3,189,870	3,189,870
Accounts receivable	911,674	1,031,739	145,000	10,819	0	363,993	2,463,225
Total	<u>40,059,666</u>	<u>11,253,041</u>	<u>3,864,075</u>	<u>22,674,744</u>	<u>12,764,356</u>	<u>285,362,959</u>	<u>375,978,841</u>
Liabilities							
Loans payable, gross	3,579,442	4,708,333	27,853,214	64,760,748	43,618,112	121,158,656	265,678,505
Accrued interest payable	474,634	93,718	1,458,892	190,187	0	0	2,217,431
Total	<u>4,054,076</u>	<u>4,802,051</u>	<u>29,312,106</u>	<u>64,950,935</u>	<u>43,618,112</u>	<u>121,158,656</u>	<u>267,895,936</u>
<u>December 31, 2016</u>	<u>1 to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 180 days</u>	<u>181 to 365 days</u>	<u>Over 365 days</u>	<u>Total</u>
Assets							
Cash and cash equivalents	12,247,943	0	0	0	0	0	12,247,943
Loans and investments, gross	3,857,552	3,636,862	31,231,332	21,982,797	35,018,387	201,458,539	297,185,469
Accrued interest receivable	517,178	1,683,296	923,923	1,048,865	628,804	0	4,802,066
Assets held-for-sale	0	0	0	0	0	3,814,221	3,814,221
Accounts receivable	0	3,588,034	0	0	0	0	3,588,034
Total	<u>16,622,673</u>	<u>8,908,192</u>	<u>32,155,255</u>	<u>23,031,662</u>	<u>35,647,191</u>	<u>205,272,760</u>	<u>321,637,733</u>
Liabilities							
Loans payable, gross	13,398,716	12,105,957	2,517,482	28,985,917	34,895,793	125,680,452	217,584,317
Accrued interest payable	407,455	738,422	230,541	205,849	0	0	1,582,267
Derivative liabilities	0	0	0	(3,025)	0	5,120	2,095
Total	<u>13,806,171</u>	<u>12,844,379</u>	<u>2,748,023</u>	<u>29,188,741</u>	<u>34,895,793</u>	<u>125,685,572</u>	<u>219,168,679</u>

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

	<u>Carrying amount*</u>	<u>Gross nominal (outflow)</u>	<u>Less than 1 month</u>	<u>Over 1 to 3 months</u>	<u>Over 3 months to 1 year</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>
September 30, 2017							
Non-derivative liabilities							
Loans payable, gross *	265,678,505	(265,678,505)	(3,573,442)	(32,561,548)	(108,378,860)	(117,746,767)	(3,411,889)
Interest **	2,217,431	(21,875,136)	(590,258)	(3,170,772)	(5,972,406)	(11,929,899)	(211,801)
Unrecognized loan commitments	0	(62,789,450)	(62,789,450)	0	0	0	0
Total	<u>267,895,936</u>	<u>(350,337,091)</u>	<u>(66,953,150)</u>	<u>(35,732,320)</u>	<u>(114,351,266)</u>	<u>(129,676,666)</u>	<u>(3,623,689)</u>
December 31, 2016							
Non-derivative liabilities							
Loans payable, gross *	217,584,317	(217,584,317)	(13,398,717)	(14,623,440)	(63,881,709)	(120,339,542)	(5,340,909)
Interest **	1,582,267	(17,640,873)	(370,323)	(1,643,470)	(5,749,295)	(9,583,843)	(293,942)
Unrecognized loan commitments	0	(70,100,000)	(70,100,000)	0	0	0	0
Derivative liabilities							
Interest rate swaps **	0	3,025	0	0	3,025	0	0
Total	<u>219,166,584</u>	<u>(305,322,165)</u>	<u>(83,869,040)</u>	<u>(16,266,910)</u>	<u>(69,627,979)</u>	<u>(129,923,385)</u>	<u>(5,634,851)</u>

* Excludes deferred commissions

** Includes estimated interest payments at projected forward LIBOR rates

(d) *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 September 30, 2017 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 Credit 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 September 30, 2017, 5% (December 31, 2016: 21%) of interest-earning assets and 13% (December 31, 2016: 7%) of interest-bearing liabilities net of swaps are set to re-price after six months.

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In order to comply with the internal duration policy, the Corporation also uses interest rate derivatives to hedge some of its fixed-rate asset positions by converting them into a variable rate position and its floating-rate liabilities positions by converting them into a fix rate position.

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

<u>September 30, 2017</u>	<u>Assets</u>	<u>Liabilities</u>	
Floating rate as a % total	74.69%	90.94%	
Fixed rate as a % total	19.27%	9.06%	
Net Portfolio's Sensitivity to 100bp change in interest rate			0.40%
POLICY LIMIT:			+/- 1.50

<u>December 31, 2016</u>	<u>Assets</u>	<u>Liabilities</u>	
Floating rate as a % total	71.26%	92.73%	
Fixed rate as a % total	26.36%	7.27%	
Net Portfolio's Sensitivity to 100bp change in interest rate			0.59%
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\$500,156, which represents a change of +/- 19.37% of annualized net income and +/- 0.53% of equity as of September 30, 2017.

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.

<u>September 30, 2017</u>	<u>1 to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 180 days</u>	<u>181 to 365 days</u>	<u>Over 365 days</u>	<u>Total</u>
<i>Assets:</i>							
Loans and investments, gross	83,534,090	76,951,523	74,833,888	55,770,028	2,138,511	45,641,093	338,869,133
<i>Liabilities:</i>							
Loans payable, gross	<u>35,509,613</u>	<u>15,500,000</u>	<u>128,510,000</u>	<u>72,519,731</u>	<u>1,136,364</u>	<u>12,502,797</u>	<u>265,678,505</u>
Net position	<u>48,024,477</u>	<u>61,451,523</u>	<u>(53,676,112)</u>	<u>(16,749,703)</u>	<u>1,002,147</u>	<u>33,138,296</u>	<u>73,190,628</u>
<u>December 31, 2016</u>	<u>1 to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 180 days</u>	<u>181 to 365 days</u>	<u>Over 365 days</u>	<u>Total</u>
<i>Assets:</i>							
Loans and investments, gross	42,288,626	57,120,073	35,732,113	76,346,357	41,785,638	43,912,662	297,185,469
<i>Liabilities:</i>							
Loans payable, gross	<u>30,939,315</u>	<u>57,166,376</u>	<u>19,615,386</u>	<u>81,463,481</u>	<u>14,195,214</u>	<u>14,204,545</u>	<u>217,584,317</u>
Net position	<u>11,349,311</u>	<u>(46,303)</u>	<u>16,116,727</u>	<u>(5,117,124)</u>	<u>27,590,424</u>	<u>29,708,117</u>	<u>79,601,152</u>

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(e) *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 portfolio liquidity
- 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 Audit Committee monitors compliance with the Corporation's internal policies and procedures on a regular basis.

(f) *Capital management*

The Corporation has a capital adequacy policy that was approved by the Board of Directors on October 22, 2009. The Corporation's capital structure is as follows:

	September 30, 2017	December 31, 2016
Tier 1 capital	<u>93,581,553</u>	<u>91,162,142</u>
Total capital	<u>93,581,553</u>	<u>91,162,142</u>
Risk weight of 20%	5,350,949	2,449,589
Risk weight of 50%	20,440,032	30,573,397
Risk weight of 100%	<u>334,134,161</u>	<u>297,319,969</u>
Risk - weighted assets	<u>359,925,142</u>	<u>330,342,955</u>
Capital adequacy	<u>26.00%</u>	<u>27.60%</u>
Required capital adequacy (established by the Board)	<u>20.00%</u>	<u>20.00%</u>

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(6) Furniture, Equipment and Improvements

Furniture, equipment and improvements are summarized as follows:

	<u>September 30, 2017</u>				
	<u>Furniture and Equipment</u>	<u>Property Improvements</u>	<u>Computer Equipment</u>	<u>Project in Progress</u>	<u>Total</u>
Cost:					
Balance at January 1, 2017	147,755	739,654	59,220	132,259	1,078,888
Additions	0	0	37,754	0	37,754
Reclassifications	0	0	0	(132,259)	(132,259)
Balance at end of period	<u>147,755</u>	<u>739,654</u>	<u>96,974</u>	<u>0</u>	<u>984,383</u>
Accumulated depreciation:					
Balance at January 1, 2017	12,331	30,819	8,837	0	51,987
Expense of the period	22,061	55,473	13,565	0	91,099
Balance at end of period	<u>34,392</u>	<u>86,292</u>	<u>22,402</u>	<u>0</u>	<u>143,086</u>
Net balance	<u>113,363</u>	<u>653,362</u>	<u>74,572</u>	<u>0</u>	<u>841,297</u>
	<u>December 31, 2016</u>				
	<u>Furniture and Equipment</u>	<u>Property Improvements</u>	<u>Computer Equipment</u>	<u>Project in Progress</u>	<u>Total</u>
Cost:					
Additions	147,755	739,654	59,220	132,259	1,078,888
Balance at end of year	<u>147,755</u>	<u>739,654</u>	<u>59,220</u>	<u>132,259</u>	<u>1,078,888</u>
Accumulated depreciation:					
Expense of the year	12,331	30,819	8,837	0	51,987
Balance at end of year	<u>12,331</u>	<u>30,819</u>	<u>8,837</u>	<u>0</u>	<u>51,987</u>
Net balance	<u>135,424</u>	<u>708,835</u>	<u>50,383</u>	<u>132,259</u>	<u>1,026,901</u>

During the nine-months ended September 30, 2017 the Corporation reclassified US\$132,259 from project in progress upon closing the implementation of new systems that are presented as intangible assets.

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(7) Loans Payable

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

<u>Foreign Financial Institutions</u>	<u>Maturity</u>	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Entrepreneurial Development Bank (FMO)	2020	31,500,000	36,000,000
Inter-American Development Bank	2019	22,371,128	37,166,376
Corporación Andina de Fomento - Syndicate	2020	53,625,000	35,750,000
Corporación Andina de Fomento	2018	25,000,000	25,000,000
Itau Corpbanca	2018	10,000,000	20,000,000
Caribbean Development Bank	2024	14,775,525	16,477,273
Opec Fund for International Development (OFID)	2022	12,272,727	15,000,000
Central American Bank for Economic Integration	2018	10,847,200	13,058,850
German Investment Corporation (KFW DEG)	2019	5,769,231	6,923,077
Central American Bank for Economic Integration	2017	0	5,371,133
Opec Fund for International Development (OFID)	2018	2,307,694	4,615,386
Belgian Investment Company for Developing Countries / Swiss Investment Fund for Emerging Markets	2017	0	2,222,222
Norwegian Investment Fund for Developing Countries	2018	25,000,000	0
Global Climate Partnership Fund	2022	15,000,000	0
 <u>Local Financial Institutions</u>			
Banco Pichincha Panama, S. A.	2018	10,000,000	0
Banco Internacional de Costa Rica, S. A.	2018	9,350,000	0
Banco Internacional de Costa Rica, S. A.	2019	17,860,000	0
		<u>265,678,505</u>	<u>217,584,317</u>
Deferred expense		<u>(1,896,094)</u>	<u>(2,019,287)</u>
Total		<u>263,782,411</u>	<u>215,565,030</u>

The effective interest rates on loans with financial entities range between 2.74% and 5.99% per annum (December 31, 2016: between 2.21% and 5.27%).

The following is a detail of outstanding loans payable, undrawn balance of committed lines of credit and undrawn balance of uncommitted lines of credit as of September 30, 2017 and December 31, 2016:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Outstanding loans payable	<u>265,678,505</u>	<u>217,584,317</u>
Undrawn balance of committed lines of credit	<u>25,875,000</u>	<u>35,750,000</u>
Undrawn balance of uncommitted lines of credit	<u>36,914,450</u>	<u>3,570,017</u>

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See note 5.c. 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.

(8) Equity

Share capital

The Corporation's share capital is comprised of 54,000,001 shares of US\$1 par value, for a total of US\$54,000,001. Of that total, 14,082,203 are Class A preferred shares, and 39,917,798 are Class B common shares (December 31, 2016: 14,082,203 Class A preferred shares and 39,917,798 Class B common shares).

The share capital is distributed as follows:

	<u>September 30, 2017</u>		<u>December 31, 2016</u>	
	<u>Acquired Capital</u>	<u>Ownership Interest</u>	<u>Acquired Capital</u>	<u>Ownership Interest</u>
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.	<u>3,061,349</u>	5.67%	<u>3,061,349</u>	5.67%
	<u>54,000,001</u>		<u>54,000,001</u>	

Reserves

• *Legal reserve:*

This reserve corresponded to the allocation of 5% of net income not exceeding 20% of outstanding share capital, as previously required by the Costa Rican Code of Commerce. This reserve was reclassified to retained earnings on December 2016, because the Corporation is currently not mandated to keep such reserve by any authority.

• *Fair value reserve:*

The fair value reserve includes the cumulative net change in the fair value of available-for-sale securities until the securities are derecognized.

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(9) Basic Earnings Per Share

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

	September 30, 2017	September 30, 2016
Net income	<u>2,582,513</u>	<u>6,610</u>
Number of shares	<u>54,000,001</u>	<u>54,000,001</u>
Earnings per share	<u>0.05</u>	<u>0.00</u>

(10) 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 Superintendence 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:

<u>Panama</u>	September 30, 2017	September 30, 2016
Net financial income before income tax	2,859,208	1,042,143
Foreign revenue, exempt and non-taxable, net of costs and expenses	<u>(3,699,421)</u>	<u>(764,617)</u>
Net taxable (loss) income	<u>(840,213)</u>	<u>277,526</u>
Income tax	<u>0</u>	<u>69,381</u>

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 three (3) years, in accordance with current U.S. tax regulations.

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For purposes of determining taxable income, 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 2016 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 period ended September 30, 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.

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

<u>U.S.</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Net financial income (loss) before income tax	2,859,208	1,042,143
Foreign revenue, exempt and non-taxable, net of costs and expenses	<u>(2,130,295)</u>	<u>(840,477)</u>
Net taxable income per Virginia state tax	<u>728,913</u>	<u>201,666</u>
Current Virginia state tax expense, estimated	<u>43,735</u>	<u>12,100</u>
Net taxable income per Federal income tax	<u>685,178</u>	<u>189,566</u>
Current Federal income tax expense, estimated	<u>232,960</u>	<u>954,052</u>
Total U.S. income taxes	<u>276,695</u>	<u>966,152</u>
Total Panama and U.S. income taxes	<u>276,695</u>	<u>1,035,533</u>

The effective tax rate of the Corporation for the year ended September 30, 2017 was 9.68% (September 30, 2016: 92.71%). 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.

(11) Derivatives Held for Risk Management Purposes

Interest rate derivatives

Management uses interest rate swaps to reduce interest rate risk on its assets (loans receivable). The Corporation reduces its credit risk in respect of those agreements by dealing with financially sound counterparty institutions.

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As of September 30, 2017 the Corporation does not present balances of swap agreements. On June 15, 2017 the following swap agreement, outstanding at December 31, 2016, was settled:

	<u>Interest Rate</u>	<u>December 31, 2016</u>		<u>Fair Value - Liability</u>
		<u>Maturity</u>	<u>Notional Value</u>	
Designated cash flow hedges of interest rate risk				
Goldman Sachs	Variable: L+ 6M.	6/15/2017	<u>2,222,222</u>	<u>3,010</u>

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

During the period ended September 30, 2017, the Corporation has recognized a realized gain of US\$2,759 (September 30, 2016: an unrealized gain of US\$3,010) in the consolidated statement of comprehensive income, derived from the net change in fair value of the derivatives.

During 2016, the Corporation recognized in other comprehensive income, a net unrealized gain of US\$6,943, representing the change in fair value of the cash flow hedge.

(12) 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.

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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 more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement 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:

	September 30, 2017	
	<u>Carrying amount</u>	<u>Fair value Level 2</u>
Investment securities	<u>242,831</u>	<u>242,831</u>
	December 31, 2016	
	<u>Carrying amount</u>	<u>Fair value Level 2</u>
Investment securities	<u>455,304</u>	<u>455,304</u>
Derivative liabilities	<u>3,010</u>	<u>3,010</u>

The following table sets out 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:

	September 30, 2017	
	<u>Carrying amount</u>	<u>Fair value Level 3</u>
Loans receivable	<u>321,635,299</u>	<u>374,452,491</u>
Loans payable	<u>263,782,411</u>	<u>274,046,674</u>

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	<u>December 31, 2016</u>	
	<u>Carrying amount</u>	<u>Fair value Level 3</u>
Loans receivable	<u>282,932,031</u>	<u>305,464,117</u>
Loans payable	<u>215,565,030</u>	<u>225,202,638</u>

During September 30, 2017, there have not been transfers from Level 1 to Level 2 or from Level 2 to Level 1 of the fair value hierarchy (December 31, 2016: no transfers between Level 1 and Level 2), due to changes in availability of observable prices from active/non-active markets.

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

(a) *Investment securities and derivative liabilities*

Fair values are determined by using a model based on observable market data, such as: yield rates (LIBOR OIS (Overnight Index Swap) and LIBOR rates zero coupon yield). Additionally, for those interest rate swaps indexed to the different tenors (LIBOR 1M, LIBOR 3M, LIBOR 6M), Management uses the yield curve corresponding to the tenor in order to estimate the respective implied forward rates; which are used for estimating future cash flows.

(b) *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.

(c) *Loans payable*

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

(13) 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 September 30, 2017, the Corporation has commitments and contingencies in the amount of US\$40,880,065, corresponding to credits pending disbursement to various entities. At September 30, 2017 the Corporation does not have commitments for undersigned guaranty agreements and letters of credit (December 31, 2016: the Corporation had commitments and contingencies in the amount of US\$74,800,000, corresponding to credits pending disbursement to various entities in the amount of US\$59,100,000; and commitments for undersigned guaranty agreements and letters of credit in the amount of US\$15,700,000).

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.