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

(Panama, Republic of Panama)

**Consolidated Interim Financial Statements**

(Unaudited)

September 30, 2020

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

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

**Consolidated Statement of Financial Position**

September 30, 2020

(Expressed in US Dollars)

| | Note | September 30, 2020 (Unaudited) | December 31, 2019 (Unaudited) |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | 42,434,037 | 18,419,136 |
| Investment securities | 6 | 4,553,447 | 1,897,964 |
| Loans receivable at amortized cost | 6 | 366,871,504 | 378,302,168 |
| Assets held-for-sale, net | 6 | 0 | 541,970 |
| Furniture, equipment and improvements, net | 7 | 2,151,148 | 2,524,765 |
| Receivables from advisory and structuring services, net | 6 | 3,439,308 | 3,404,575 |
| Derivative assets held for risk management | 6, 14 | 10,568,169 | 5,268,269 |
| Investment property | 8 | 15,246,604 | 13,326,832 |
| Other assets | | 4,173,874 | 3,511,193 |
| **Total assets** | | 449,438,091 | 427,196,872 |
| **Liabilities** | | | |
| At amortized cost: | | | |
| Loans | 6, 9 | 153,578,220 | 153,892,042 |
| Bonds | 6, 10 | 150,953,013 | 144,744,891 |
| Commercial paper | 6, 11 | 30,455,000 | 25,143,000 |
| Accrued interest payable | | 1,661,947 | 1,231,527 |
| Derivative liabilities held for risk management | 14 | 540,902 | 0 |
| Lease liabilities | | 1,544,796 | 1,672,877 |
| Other liabilities | | 6,224,819 | 1,640,936 |
| **Total liabilities** | | 344,958,697 | 328,325,273 |
| **Equity** | | | |
| Share capital | 12 | 54,000,001 | 54,000,001 |
| Treasury shares | 12 | (3,673,618) | (3,673,618) |
| Additional paid-in capital | | 85,000 | 85,000 |
| Retained earnings | | 54,068,011 | 48,460,216 |
| **Total equity** | | 104,479,394 | 98,871,599 |
| **Total liabilities and equity** | | 449,438,091 | 427,196,872 |
| **Commitments and contingencies** | | | |
| Loans pending disbursement | 16 | 37,133,773 | 41,588,104 |
| Undrawn balance of credit facilities | 6, 9 | 28,245,600 | 68,678,380 |
| Notional amount of swaps | 14 | 130,409,222 | 141,238,200 |

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

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

**Consolidated Statement of Comprehensive Income**

For the three and nine-month periods ended on September 30, 2020

(Expressed in US Dollars)

| | Note | For the quater ended on: September 30, 2020 (Unaudited) | For the quater ended on: September 30, 2019 (Unaudited) | For the nine month period ended on: September 30, 2020 (Unaudited) | For the nine month period ended on: September 30, 2019 (Unaudited) |
|---|---|---|---|---|---|
| **Interest income:** | | | | | |
| Cash and cash equivalents | | 97,264 | 52,281 | 211,977 | 141,332 |
| Investment securities | | 22,145 | 19,697 | 58,674 | 49,513 |
| Loans receivable | | 6,677,010 | 8,295,531 | 21,026,547 | 24,338,948 |
| Total interest income | | 6,796,419 | 8,367,509 | 21,297,198 | 24,529,793 |
| **Interest expense:** | | | | | |
| Loans payable | | (1,964,333) | (2,767,895) | (6,230,036) | (7,718,766) |
| Debt securities | | (1,777,246) | (1,716,923) | (5,886,487) | (5,407,842) |
| Lease | | (23,002) | (25,195) | (69,006) | (75,584) |
| Total interest expense | | (3,764,581) | (4,510,013) | (12,185,529) | (13,202,192) |
| Net interest income | | 3,031,838 | 3,857,496 | 9,111,669 | 11,327,601 |
| Other income: | | | | | |
| Advisory and structuring fees and other, net | | 2,935,195 | 1,468,213 | 5,639,851 | 2,823,181 |
| Gain or loss on derivative instruments and other financial assets, net | 14 | (95,636) | 51,916 | 918,680 | 330,120 |
| Total other income | | 2,839,559 | 1,520,129 | 6,558,531 | 3,153,301 |
| **Operating income** | | 5,871,397 | 5,377,625 | 15,670,200 | 14,480,902 |
| Provision for loan losses | 6 | (982,351) | (2,077,635) | (2,707,676) | (3,744,279) |
| Impairment loss on assets held-for-sale | 6 | 27,120 | 0 | (92,470) | (65,324) |
| Impairment loss on receivables | 6 | (9,975) | 119,745 | (249,978) | (38,250) |
| Depreciation and amortization expense | 7 | (124,933) | (131,629) | (385,230) | (357,641) |
| Personnel expenses | | (1,436,950) | (1,434,232) | (4,145,703) | (4,258,980) |
| Other administrative expenses | | (726,956) | (1,217,454) | (2,322,743) | (2,762,054) |
| **Net income before tax** | | 2,617,352 | 636,420 | 5,766,400 | 3,254,374 |
| Income taxes | | 0 | (46,972) | (115,164) | (280,845) |
| **Total comprehensive income for the period** | | 2,617,352 | 589,448 | 5,651,236 | 2,973,529 |
| Basic earnings per share | 13 | 0.05 | 0.01 | 0.11 | 0.06 |

*The consolidated statement of compehensive income should be read along with the accompanying notes to the consolidated interim 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 nine-month period ended on September 30, 2020

(Expressed in US Dollars)

| | Share capital | Treasury shares | Additional paid-in capital | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Balance at December 31, 2018 (Audited)** | 54,000,001 | 0 | 85,000 | 43,591,574 | 97,676,575 |
| Net income for the period | 0 | 0 | 0 | 2,973,529 | 2,973,529 |
| Total comprehensive income for the period | 54,000,001 | 0 | 85,000 | 46,565,103 | 100,650,104 |
| **Transactions with owners of the Corporation** | | | | | |
| Complementary tax, Panama | 0 | 0 | 0 | (176,854) | (176,854) |
| Dividends paid | 0 | 0 | 0 | (3,264,108) | (3,264,108) |
| Share repurchase | 0 | (3,673,618) | | | (3,673,618) |
| **Balance at September 30, 2019 (Unaudited)** | 54,000,001 | (3,673,618) | 85,000 | 43,124,141 | 93,535,524 |
| | | | | | |
| **Balance at December 31, 2019 (Audited)** | 54,000,001 | (3,673,618) | 85,000 | 48,460,216 | 98,871,599 |
| Net income for the period | | | | 5,651,236 | 5,651,236 |
| Total comprehensive income for the period | 54,000,001 | (3,673,618) | 85,000 | 54,111,452 | 104,522,835 |
| **Transactions with owners of the Corporation** | | | | | |
| Complementary tax, Panama | 0 | 0 | 0 | (43,441) | (43,441) |
| **Balance at September 30, 2020 (Unaudited)** | 54,000,001 | (3,673,618) | 85,000 | 54,068,011 | 104,479,394 |

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

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

**Consolidated Statement of Cash Flows**

For the nine-month period ended on September 30, 2020

(Expressed in US Dollars)

| | Note | September 30, 2020 (Unaudited) | September 30, 2019 (Unaudited) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income for the period | | 5,651,236 | 2,973,529 |
| Gain or loss on derivative instruments and other financial assets, net | | (918,680) | (330,120) |
| Provision for loan losses | 6 | 2,707,676 | 3,744,279 |
| Impairment loss on assets held-for-sale | 6 | 92,470 | 65,324 |
| Impairment loss on receivables | 6 | 249,978 | 38,250 |
| Depreciation and amortization expense | 7 | 385,230 | 357,641 |
| Net interest income | | (9,111,669) | (11,327,601) |
| Income tax expense | | 115,164 | 280,845 |
| | | (828,595) | (4,197,853) |
| Changes in: | | | |
| Other assets | | (971,788) | 2,255,315 |
| Other account payable | | 4,468,722 | 170,189 |
| Loan collections | | 78,980,513 | 24,268,290 |
| Loan disbursements | | (69,584,217) | (57,550,722) |
| | | 12,893,230 | (30,856,928) |
| Income tax paid | | (277,656) | (408,393) |
| Interest received | | 20,580,536 | 23,499,562 |
| Interest paid | | (11,755,109) | (11,738,710) |
| | | 8,547,771 | 11,352,459 |
| **Net cash flows from operating activities** | | 20,612,406 | (23,702,322) |
| **Cash flows from investing activities** | | | |
| Acquisition of investment securities | | (5,394,000) | (1,594,000) |
| Proceeds form sales, redemption and amortization of investment securities | | 2,741,000 | 1,150,000 |
| Acquisition of furniture, equipment and improvements | 7 | 0 | (435,559) |
| Proceeds from sale of computer equipment | 7 | 1,758 | 416 |
| **Net cash flows from investing activities** | | (2,651,242) | (879,143) |
| **Cash flows from financing activities** | | | |
| Proceeds from loans payable | | 82,345,916 | 143,579,943 |
| Repayment of loans payable | | (82,659,738) | (108,563,370) |
| Proceeds from bonds | | 1,999,000 | 20,487,000 |
| Repayment of bonds | | (900,000) | (900,000) |
| Proceeds from commercial paper issued | | 29,682,000 | 18,387,000 |
| Repayment of commercial paper | | (24,370,000) | (28,214,000) |
| Share repurchase | | 0 | (3,673,618) |
| Complementary tax paid | | (43,441) | (176,854) |
| Dividends paid | | 0 | (3,264,107) |
| **Net cash flows from financing activities** | | 6,053,737 | 37,661,994 |
| Net increase (decrease) in cash and cash equivalents | | 24,014,901 | 13,080,529 |
| Cash and cash equivalents at the beginning of the period | | 18,419,136 | 15,215,074 |
| Cash and cash equivalents at the end of the period | | 42,434,037 | 28,295,603 |

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

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(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, 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 | |
|---|---|---|---|---|
| | | | 2020 | 2019 |
| 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. | Currently inactive | Cayman Islands | 100% | 100% |

## (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).

*(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, investment property at fair value and bonds designated as hedged items in qualifying fair value hedging relationships which are measured at amortized cost adjusted for hedging gains or losses.

**(2) Basis of Preparation, continued**

*(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 accrued interest receivable – note 6;
- Impairment of assets held-for-sale – note 6;
- Fair value of financial instruments – note 15.

**(3) Significant Accounting Policies**

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

Income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective acquisition/inception 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.

**(3) Significant Accounting Policies, continued**

*(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

**Financial assets**

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).

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.

**(3) Significant Accounting Policies, continued**

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.

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;
- 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.

## (3) Significant Accounting Policies, continued

*Assessment of 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.

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.

**(3) Significant Accounting Policies, continued**

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. The Corporation derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

(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.

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.

**(3) Significant Accounting Policies, continued**

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) Impairment

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

- Financial assets that are debt instruments; and
- Loan commitments issued and financial guarantees.

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; and
- 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.

***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.

**(3) Significant Accounting Policies, continued**

***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

- 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.

**(3) Significant Accounting Policies, continued**

**Presentation of allowance for ECL in the statement of financial position**

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of assets;

- Loan commitments and financial guarantee contracts: generally, as a provision;

- Where a financial instrument includes both a drawn and an undrawn component and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

- Debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in retained earnings.

**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.

**Financial assets**

IFRS 9 contains 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 impairment model is applied to financial assets measured at amortized cost and FVOCI, except for investments in equity instruments.

A three-stage approach to impairment is used 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 flows for the asset, for those financial assets that are credit-impaired.

- 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.

*(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 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.

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.

**(3) Significant Accounting Policies, continued**

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*

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.

**(3) Significant Accounting Policies, continued**

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.

*(g) 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.

*(h) 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 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.

**(3) Significant Accounting Policies, continued**

*(i) Investment property*

Investment property is initially measured at cost and subsequently at fair value with any change therein recognized in profit or loss within other income. In case the investment property is acquired in exchange for a non-monetary asset or assets, the cost of such an investment property is measured at fair value.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposals and the carrying amount of the item) is recognized in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

*(j) Liabilities*

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

*(k) 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.

*(l) 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 September 30, 2020.

**(3) Significant Accounting Policies, continued**

*(m) Income and expense recognition*

(i) Interest income and expense

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 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.

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.

**(3) Significant Accounting Policies, continued**

(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 and structuring services, and is recognized as the related services are performed.

Fee and commission income from contracts with customers is 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 |
|---|---|---|
| Advisory and Structuring Services | Advising customers on 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 relating 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. |

*(n) 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.

*(o) 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.

*(p) 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.

**(3) Significant Accounting Policies, continued**

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.

*(q) Employee benefits*

(i) *Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized 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 period. That benefit is based on the award value generated to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

*(r) Leases*

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Corporation assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Corporation has the right to direct the use of the asset. The Corporation has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Corporation has the right to direct the use of the asset if either:
- The Corporation has the right to operate the asset; or
- The Corporation designed the asset in a way that predetermines how and for what purpose it will be used.

**(3) Significant Accounting Policies, continued**

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Corporation allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Corporation has elected separate non-lease components and not account for the lease and non-lease components as a single lease component.

The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of furniture, equipment and improvements. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. The Corporation uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Corporation is reasonably certain to exercise, lease payments in an optional renewal period if the Corporation is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Corporation is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option.

**(3) Significant Accounting Policies, continued**

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Corporation presents right-of-use assets that do not meet the definition of investment property in furniture, equipment and improvement and lease liabilities in the consolidated statement of financial position.

**Short-term leases and leases of low-value assets**

The Corporation has elected not to recognize right-of-use assets and lease liabilities for short-term leases of computer equipment that have a lease term of 12 months or less and leases of low-value assets. The Corporation recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For contracts entered into before January 1, 2019, the Corporation determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and

- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

  - The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;

  - The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

  - Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

## (4) Balances and Transactions with Related Parties

For the period ended September 30, 2020, the Corporation entered into transactions with parties that are considered, to be related.

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

| | | September 30, 2020 | | | |
|---|---|---|---|---|---|
| **Type of entity** | **Relationship** | **Assets – Loans and Accrued Interest Receivable** | **Liabilities - Loans and Accrued Interest Payable** | **Interest Income on Loans Receivable** | **Interest Expenses on Loans Payable** |
| Legal entities | Shareholders | 7,457,458 | 8,051,642 | 480,389 | 364,433 |

| | | December 31, 2019 | | September 30, 2019 | |
|---|---|---|---|---|---|
| **Type of entity** | **Relationship** | **Assets – Loans and Accrued Interest Receivable** | **Liabilities - Loans and Accrued Interest Payable** | **Interest Income on Loans Receivable** | **Interest Expenses on Loans Payable** |
| Legal entities | Shareholders | 8,375,468 | 9,776,414 | 372,225 | 674,307 |

For period ended on September 30, 2020, the Corporation had access to undisbursed committed and uncommitted lines of credit with related parties of US$10,000,000 (December 31, 2019: US$35,000,000), in addition to other credit facilities (see note 9).

Members of the Board of Directors have received compensation of US$144,093 (September 30, 2019: US$78,783) for attending meetings during the period.

## (5) Employee Benefits

For period ended on September 30, 2020 personnel expenses include salaries and benefits paid to key executive officers for US$875,047(September 30, 2019: US$717,074).

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.

## (5) Employee Benefits, continued

(b) Retirement plan contributions (Simple IRA): The Corporation contributes 3% (December 31, 2019: 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.

Pursuant to the Plan, the Corporation grants the Participant a right to receive stock options convertible into cash, if certain performance metrics are achieved, as amended in 2019, during a seven-year term starting in 2018, that is attributed yearly ("Option"). The Option does not grant the Participant any rights on the Corporation´s stock.

The Plan has a vesting period of five years and a subsequent three-year payout period. During the first two years of the payout period, the plan continues granting the right under the Option to the Participants.

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, 2019, based on 2019 and 2018 performance metrics and evaluation of the potential award value under the Plan, the annual pro-rata portion of the Option accumulated for this benefit was US$155,038, based on amended terms.

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.

**(6) Financial Risk Management, continued**

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. In the case of Credit Risk, the Committee recommends write-offs to the Board of Directors, 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.

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 guarantees) 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.

**(6) Financial Risk Management, continued**

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 three (3) 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.

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-.

**(6) Financial Risk Management, continued**

- 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 September 30, 2020, 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.

Balances of loans receivable and investment securities are as follows:

| **Loans and investment securities** | **September 30, 2020** | **December 31, 2019** |
|---|---|---|
| Investment securities | 4,547,000 | 1,894,000 |
| Accrued interest | 6,447 | 3,964 |
| Investment securities at amortized cost | 4,553,447 | 1,897,964 |
| | | |
| Loans receivable | 371,518,887 | 389,249,701 |
| Accrued interest | 5,433,908 | 4,760,601 |
| Allowance for loan losses | (8,899,751) | (13,918,295) |
| Deferred income | (1,722,442) | (1,660,005) |
| | 366,330,602 | 378,432,002 |
| Less: re-measurement of hedged item | 540,902 | (129,834) |
| Loans receivable | 366,871,504 | 378,302,168 |
| | | |
| Total investments and loans (par value) | 382,047,144 | 395,778,432 |
| Total investments and loans, carrying value | 371,424,951 | 380,200,132 |

The loan portfolio includes the financing of project bonds totaling US$2,088,676 (December 31, 2019: US$2,088,676).

As of September 30, 2020, the Corporation recovered US$1,197,081 from an investment security (Alsacia), write-off in December 2018. The recovery was disclosure as other income and the Corporation expect more recoveries in the future from this operation.

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.

## (6) Financial Risk Management, continued

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.

The average loan portfolio risk rating is B+ as of September 30, 2020 (December 31, 2019: average loan portfolio risk rating was B+) 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 and FVTPL.

| | September 30, 2020 | | | |
|---|---|---|---|---|
| | **12-month ECL** | **Lifetime ECL, not credit impaired** | **Lifetime ECL, credit impaired** | **Total** |
| **Loans and advances at amortized cost** | | | | |
| AAA / A- | 3,620,100 | 0 | 0 | 3,620,100 |
| BBB + / BBB- | 24,755,242 | 0 | 0 | 24,755,242 |
| BB+ / BB- | 96,128,643 | 15,394,130 | 0 | 111,522,773 |
| B+ / B- | 102,616,948 | 27,330,905 | 0 | 129,947,853 |
| <= CCC+ | 78,906,647 | 8,998,156 | 13,768,116 | 101,672,919 |
| Total gross amount | 306,027,580 | 51,723,191 | 13,768,116 | 371,518,887 |
| Accrued interest | 3,901,979 | 608,420 | 923,509 | 5,433,908 |
| Loss allowance | (2,506,832) | (1,515,648) | (4,877,271) | (8,899,751) |
| Deferred income | (1,722,442) | 0 | 0 | (1,722,442) |
| | 305,700,285 | 50,815,963 | 9,814,354 | 366,330,602 |
| More: re-measurement of hedged item | 540,902 | 0 | 0 | 540,902 |
| Net carrying amount (*) | 306,241,187 | 50,815,963 | 9,814,354 | 366,871,504 |
| **Investment securities at amortized cost** | | | | |
| AAA / A- | 0 | 0 | 0 | 0 |
| BBB + / BBB- | 0 | 0 | 0 | 0 |
| BB+ / BB- | 4,547,000 | 0 | 0 | 4,547,000 |
| B+ / B- | 0 | 0 | 0 | 0 |
| <= CCC+ | 0 | 0 | 0 | 0 |
| Total gross amount | 4,547,000 | 0 | 0 | 4,547,000 |
| Accrued interest | 6,447 | 0 | 0 | 6,447 |
| Net carrying amount | 4,553,447 | 0 | 0 | 4,553,447 |

## (6) Financial Risk Management, continued

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL, not credit impaired | Lifetime ECL, credit impaired | Total |
| **Loans and advances at amortized cost** | | | | |
| AAA / A- | 0 | 0 | 0 | 0 |
| BBB + / BBB- | 61,436,473 | 0 | 0 | 61,436,473 |
| BB+ / BB- | 133,111,555 | 5,200,000 | 0 | 138,311,555 |
| B+ / B- | 124,728,575 | 16,999,697 | 6,374,636 | 148,102,908 |
| <= CCC+ | 19,904,430 | 10,900,000 | 10,594,335 | 41,398,765 |
| Total gross amount | 339,181,033 | 33,099,697 | 16,968,971 | 389,249,701 |
| Accrued interest | 3,425,216 | 487,287 | 848,098 | 4,760,601 |
| Loss allowance | (1,792,050) | (4,242,958) | (7,883,287) | (13,918,295) |
| Deferred income | (1,660,005) | 0 | 0 | (1,660,005) |
| | 339,154,194 | 29,344,026 | 9,933,782 | 378,432,002 |
| Less: re-measurement of hedged item | (129,834) | 0 | 0 | (129,834) |
| Net carrying amount (*) | 339,024,360 | 29,344,026 | 9,933,782 | 378,302,168 |
| **Investment securities at amortized cost** | | | | |
| AAA / A- | 0 | 0 | 0 | 0 |
| BBB + / BBB- | 0 | 0 | 0 | 0 |
| BB+ / BB- | 1,894,000 | 0 | 0 | 1,894,000 |
| B+ / B- | 0 | 0 | 0 | 0 |
| <= CCC+ | 0 | 0 | 0 | 0 |
| Total gross amount | 1,894,000 | 0 | 0 | 1,894,000 |
| Accrued interest | 3,964 | 0 | 0 | 3,964 |
| Net carrying amount | 1,897,964 | 0 | 0 | 1,897,964 |

As of September 30, 2020, the Corporation has past due loans for US$13,768,116 (December 31, 2019: US$16,968,971).

To secure some of its loans payable, at September 30, 2020 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 10.54% (December 31, 2019: 17.19%) of the total assets.

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

| | September 30, 2020 | | | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL, not credit impaired | Lifetime ECL, credit impaired | Total |
| **Loans and advances at amortized cost** | | | | |
| Balance at January 1 | 1,792,050 | 4,242,958 | 7,883,287 | 13,918,295 |
| Transfer to 12-month ECL | 60,321 | (60,321) | 0 | 0 |
| Transfer to lifetime ECL not credit impaired | 1,173,339 | (1,173,339) | 0 | 0 |
| Transfer to lifetime ECL credit impaired | 0 | (1,918,193) | 1,918,193 | 0 |
| Net remeasurement of loss allowance | (829,645) | 424,543 | 2,802,011 | 2,396,909 |
| New financial assets originated | 310,767 | 0 | 0 | 310,767 |
| Write-offs | 0 | 0 | (7,726,220) | (7,726,220) |
| Balance at September 30 | 2,506,832 | 1,515,648 | 4,877,271 | 8,899,751 |

## (6) Financial Risk Management, continued

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL, not credit impaired | Lifetime ECL, credit impaired | Total |
| **Loans and advances at amortized cost** | | | | |
| Balance at January 1 | 1,872,379 | 2,275,396 | 10,849,385 | 14,997,160 |
| Transfer to 12-month ECL | 41,311 | (41,311) | 0 | 0 |
| Transfer to lifetime ECL credit impaired | 0 | (628,909) | 628,909 | 0 |
| Net remeasurement of loss allowance | (690,006) | 2,637,782 | 897,590 | 2,845,366 |
| New financial assets originated | 568,366 | 0 | 0 | 568,366 |
| Write-offs | 0 | 0 | (4,492,597) | (4,492,597) |
| Balance at December 31 | 1,792,050 | 4,242,958 | 7,883,287 | 13,918,295 |

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 97% (December 31, 2019: 99%) as follows:

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Mortgage on fixed assets | 113,175,012 | 124,841,250 |
| Assets held in trust | 157,182,942 | 177,098,567 |
| Pledge on movable assets | 40,375,552 | 38,060,217 |
| Corporate guarantor | 48,266,256 | 48,292,302 |
| Unsecured | 12,519,125 | 957,365 |
| | 371,518,887 | 389,249,701 |

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 3.27% and 10.50% per annum (December 31, 2019: 4.07% and 11.75%).

- 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 net worth of its audited consolidated financial statements. However, exposure to any single client shall not exceed the following criteria, based on CIFI's net worth 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% |

**(6) Financial Risk Management, continued**

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 relating 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.

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, 2020 | | % of total equity December 31, 2019 | |
|---|---|---|---|---|
| | Number of exposures | U.S. dollars | Number of Exposures | U.S. dollars |
| 0 to 4.99% | 25 | 60,667,481 | 17 | 40,902,617 |
| 5 to 9.99% | 20 | 160,377,239 | 16 | 110,933,197 |
| 10 to 14.99% | 12 | 150,474,167 | 17 | 190,667,756 |
| 15 to 18% | 0 | 0 | 3 | 46,746,131 |
| | 57 | 371,518,887 | 53 | 389,249,701 |

- 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, 2020, the Corporation complied with country risk exposure limits. However, for Argentina the Board of Directors has approved a temporary waiver until June 30, 2021.

**(6) Financial Risk Management, continued**

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, 2020 | December 31, 2019 |
|---|---|---|
| Panama | 63,182,286 | 59,888,064 |
| Argentina | 59,298,194 | 65,175,503 |
| Chile | 32,893,034 | 20,467,941 |
| Peru | 26,870,796 | 46,200,000 |
| Brazil | 26,145,125 | 26,957,365 |
| Honduras | 24,965,337 | 19,952,912 |
| Ecuador | 19,865,908 | 32,776,981 |
| Belize | 19,640,701 | 19,904,430 |
| Colombia | 16,739,007 | 22,627,372 |
| Salvador | 14,208,000 | 14,604,000 |
| Jamaica | 12,838,558 | 12,711,895 |
| Spain | 12,200,000 | 0 |
| Bolivia | 11,307,692 | 9,923,077 |
| Nicaragua | 10,994,905 | 13,460,032 |
| Uruguay | 9,511,903 | 10,209,687 |
| Mexico | 9,280,000 | 10,000,000 |
| Paraguay | 6,124,441 | 6,284,442 |
| Gross loans and investment portfolio | 376,065,887 | 391,143,701 |
| Accrued Interest | 5,440,355 | 4,764,565 |
| | 381,506,242 | 395,908,266 |
| More (Less): re-measurement of hedged item | 540,902 | (129,834) |
| Total | 382,047,144 | 395,778,432 |

- Sector risk: The Corporation limits its concentration in any sector to 50% of the corresponding country risk limit. As of September 30, 2020, 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.

**(6) Financial Risk Management, continued**

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Solar Power | 80,826,997 | 76,328,161 |
| Airports and Seaports | 57,460,675 | 61,357,404 |
| Telecommunications | 34,587,692 | 40,643,077 |
| Construction & Engineering | 30,039,432 | 39,196,082 |
| Roads, Railroads and Other | 24,827,886 | 14,769,612 |
| Wind Power | 23,899,560 | 26,020,676 |
| Co-generation (Biomass) | 22,262,464 | 20,184,771 |
| Gas & Oil | 21,100,000 | 24,500,000 |
| Hydro Power | 16,065,477 | 32,301,463 |
| Social Infrastructure | 15,243,339 | 16,853,912 |
| Thermo Power | 11,368,676 | 12,088,676 |
| Energy Efficiency | 11,000,000 | 0 |
| Tourism | 9,308,084 | 9,308,084 |
| Logistics Center and Other | 7,570,156 | 6,374,636 |
| Infrastructure Conglomerates | 6,778,200 | 6,910,680 |
| Geothermal | 3,727,249 | 4,306,467 |
| Gross loans and investment portfolio | 376,065,887 | 391,143,701 |
| Accrued Interest | 5,440,355 | 4,764,565 |
| | 381,506,242 | 395,908,266 |
| More (Less): re-measurement of hedged item | 540,902 | (129,834) |
| Total | 382,047,144 | 395,778,432 |

As of September 30, 2020, the Corporation is in compliance with the limit.

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.

During the period ended September 30, 2020, final write-downs of US$92,470 on the asset held-for-sale were made to lower its carrying amount to fair value less costs to sell (December 31, 2019: US$259,343), and the asset was sold.

**(6) Financial Risk Management, continued**

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Balance at beginning of the year | (6,939,564) | (6,680,221) |
| Write downs | 7,032,034 | 0 |
| Allowance for the period | (92,470) | (259,343) |
| Balance at end of the period | 0 | (6,939,564) |

As of September 30, 2020, the asset was sold and don´t have outstanding carrying value (December 31, 2019: US$541,970).

In addition, commissions receivable from corporate services rendered to third parties, amounting to US$3,439,308 (December 31, 2019: US$3,404,575), which are presented as receivable from advisory and structuring services, are classified as performing receivables. ECL impairment on receivables recognized in 2020 amounted to US$249,978 (September 30, 2019 US$38,250).

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.

Actions implemented due to the COVID-19 pandemic

In April 2020, due to the context, CIFI performed a full analysis of all its clients, including each country and industry in which it maintains exposure. This allowed the Institution to identify customers with higher levels of risk depending on the country, industry, and financial position. The analysis was based on:

a. Effects in country and sector
b. Collaterals status, including Debt Service Reserve Account
c. Review of Financial Statements and covenants compliance
d. Identify weaknesses in the customer business
e. Frequent client´s updates

**(6) Financial Risk Management, continued**

Based on the above analysis, Management presented a detailed report to the Credit and Risk Committees, and for those clients with higher credit risk, the Risk Unit Increased its credit follow-up. However, weekly calls and conferences are being held with all customers.

Since the beginning of the COVID-19 event, any new approval by Credit Committee cannot be executed without the formal consent from the Treasury, in order to guarantee that CIFI has the resources to comply with this new financial obligation.

Finally, a monthly report is submitted for high-risk cases to the Credit Committee.

*(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 always has to 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 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.

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.

## (6) Financial Risk Management, continued

When a financial crisis impacted the markets, CIFI activates its liquidity contingency plan, which requires Management to increase liquidity and to extend from 6 month to 1 year is liquidity position, contingency plan that is currently active due to COVID-19 crisis.

As of September 30, 2020, the Corporation had US$42,434,037 (December 31, 2019: US$18,419,136) in cash and cash equivalents and maintains undisbursed and available balances of committed credit facilities with financial institutions for US$10,000,000 (December 31, 2019: US$48,000,000) with tenors at 2021 and 2022 (December 31, 2019: tenors at 2020). Additionally, the Corporation maintains undisbursed and available balances of uncommitted short-term revolving credit facilities with financial institutions for US$18,245,600 (December 31, 2019: US$20,678,380). (See note 9).

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 their occurrence.

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

| September 30, 2020 | 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 | 42,434,037 | 0 | 0 | 0 | 0 | 0 | 42,434,037 |
| Investment securities | 548,594 | 0 | 854,803 | 50 | 3,150,000 | 0 | 4,553,447 |
| Loans receivable | (14,770,323) | (483,235) | 1,040,518 | 2,243,957 | 33,064,394 | 345,776,193 | 366,871,504 |
| Receivables from advisory and structuring services | 723,416 | 78,429 | 60,774 | 2,576,689 | 0 | 0 | 3,439,308 |
| Derivative assets | 0 | 0 | 0 | 780,414 | 1,358,545 | 8,429,210 | 10,568,169 |
| Investment property | 0 | 0 | 0 | 0 | 0 | 15,246,604 | 15,246,604 |
| **Total** | 28,935,724 | (404,806) | 1,956,095 | 5,601,110 | 37,572,939 | 369,452,007 | 443,113,069 |
| **Liabilities** | | | | | | | |
| Loans payable | (9,171,818) | 4,125,000 | 10,806,519 | (11,832,711) | 68,037,410 | 91,613,820 | 153,578,220 |
| Bonds | 0 | 0 | 0 | 10,300,000 | 900,000 | 139,753,013 | 150,953,013 |
| Commercial paper | 9,500,000 | 0 | 5,000,000 | 9,455,000 | 6,500,000 | 0 | 30,455,000 |
| Accrued interest payable | 682,243 | 233,183 | 469,470 | 277,051 | 0 | 0 | 1,661,947 |
| **Total** | 1,010,425 | 4,358,183 | 16,275,989 | 8,199,340 | 75,437,410 | 231,366,833 | 336,648,180 |

## (6) Financial Risk Management, continued

| December 31, 2019 | 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 | 18,419,136 | 0 | 0 | 0 | 0 | 0 | 18,419,136 |
| Investment securities | 1,253 | 48,314 | 1,335 | 1,044,062 | 803,000 | 0 | 1,897,964 |
| Loans receivable | 3,610,125 | (8,679,878) | 2,269,201 | 6,871,911 | 16,815,384 | 357,415,425 | 378,302,168 |
| Assets held-for-sale | 0 | 0 | 0 | 0 | 0 | 541,970 | 541,970 |
| Receivables from advisory and structuring services | 2,376,007 | 21,946 | 79,435 | 927,187 | 0 | 0 | 3,404,575 |
| Derivative assets | 0 | (10,020) | (7,343) | 226,076 | 792,718 | 4,266,838 | 5,268,269 |
| Investment property | 0 | 0 | 0 | 0 | 0 | 13,326,832 | 13,326,832 |
| **Total** | 24,406,521 | (8,619,638) | 2,342,628 | 9,069,236 | 18,411,102 | 375,551,065 | 421,160,914 |
| **Liabilities** | | | | | | | |
| Loans payable | 10,568,182 | 0 | (4,227,179) | 9,470,396 | 37,261,007 | 100,819,636 | 153,892,042 |
| Bonds | 0 | 0 | 0 | 300,000 | 600,000 | 143,844,891 | 144,744,891 |
| Commercial paper | 0 | 0 | 0 | 6,000,000 | 19,143,000 | 0 | 25,143,000 |
| Accrued interest payable | 760,521 | 0 | 225,535 | 245,471 | 0 | 0 | 1,231,527 |
| **Total** | 11,328,703 | 0 | (4,001,644) | 16,015,867 | 57,004,007 | 244,664,527 | 325,011,460 |

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

| September 30, 2020 | 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 | 153,578,220 | (163,580,758) | (2,301,280) | (15,939,260) | (83,724,107) | (61,616,111) | 0 |
| Bonds * | 150,953,013 | (170,150,813) | 0 | 0 | (16,727,766) | (153,423,047) | 0 |
| Commercial paper | 30,455,000 | (30,886,859) | (9,526,641) | (5,039,708) | (16,320,510) | 0 | 0 |
| Unrecognized loan commitments | 0 | (28,245,600) | (28,245,600) | 0 | 0 | 0 | 0 |
| Total | 334,986,233 | (392,864,030) | (40,073,521) | (20,978,968) | (116,772,383) | (215,039,158) | 0 |
| Non – derivative assets | | | | | | | |
| Investments securities | 4,553,447 | 4,637,506 | 552,381 | 876,062 | 2,209,063 | 1,000,000 | 0 |
| Loans receivable | 366,871,504 | 489,558,435 | 3,879,700 | 10,684,499 | 64,918,825 | 239,138,936 | 170,936,475 |
| Total | 371,424,951 | 494,195,941 | 4,432,081 | 11,560,561 | 67,127,888 | 240,138,936 | 170,936,475 |

| December 31, 2019 | 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 | 153,892,042 | (167,369,294) | (11,478,323) | (21,458,277) | (53,245,877) | (81,186,817) | 0 |
| Bonds * | 144,744,891 | (157,575,093) | (49,716) | 18,767,979 | (8,417,576) | (120,313,917) | (47,561,863) |
| Commercial paper | 25,143,000 | (25,795,917) | 0 | 0 | (25,795,917) | 0 | 0 |
| Unrecognized loan commitments | 0 | (68,678,380) | (68,678,380) | 0 | 0 | 0 | 0 |
| Total | 323,779,933 | (419,418,684) | (80,206,419) | (2,690,298) | (87,459,370) | (201,500,734) | (47,561,863) |
| Non – derivative assets | | | | | | | |
| Investments securities | 1,897,964 | 1,939,758 | 1,868 | 58,958 | 1,878,932 | 0 | 0 |
| Loans receivable | 378,302,168 | 523,830,355 | 19,710,810 | 12,130,938 | 54,756,745 | 245,535,523 | 191,696,339 |
| Total | 380,200,132 | 525,770,113 | 19,712,678 | 12,189,896 | 56,635,677 | 245,535,523 | 191,696,339 |

*Before fair value hedging adjustment.

**(6) Financial Risk Management, continued**

<u>Actions implemented due to the COVID-19 pandemic</u>

Following the COVID-19 pandemic and its potential impact on the availability of funding, the Corporation activated its Contingency Liquidity Plan (CLP). This CLP was awaiting activation under certain market conditions: when there is a possibility that committed funding is suspended, when access to new funding may be limited, when asset quality could deteriorate, among others.

When the CLP was activated, the Corporation drew down on its committed facilities thereby extending its liquidity from six months to one year so as to cover debt repayments, committed loan disbursements, and operating expenses.

Other additional elements included in the CLP are (1) maintaining a positive Cumulative Asset Liability GAP of 1 to 365 days (instead of 1 to 180 days) and (2) using a cash flow projection which includes transactions that are not yet committed but have a high probably of closing.

Following the execution of the CLP, the Corporation achieved a significant increase in its cash position, and continues to maintain a robust level of liquidity, exceeding the normal cash requirements during regular market conditions.

The Corporation capacity to maintain these strong liquidity levels, even in the current context, is attributable to historically diversified funding sources which includes: development and multilateral financial institutions, regional capital markets, and the continued support from the Corporation shareholders.

In addition, the Corporation continues to follow conservative policies for new loans regarding interest and principal reserve accounts, sponsor support guarantees, and disbursing new transactions on a selective basis. The priority is prudent risk management, adequate levels of risk /return, and sourcing the liquidity needed to support new loan portfolio transactions.

*(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 September 30, 2020, all of the Corporation's assets and liabilities are denominated in U.S. dollars. Accordingly, no foreign currency risk is anticipated.

## (6) Financial Risk Management, continued

*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 September 30, 2020, 13% (December 31, 2019:15%) of interest-earning assets and 16% (December 31, 2019: 6%) 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.

| September 30, 2020 | Assets | Liabilities | Net |
|---|---|---|---|
| Present Value | 412,168,945 | (340,774,499) | 71,394,446 |
| Duration (excluding interest rate swaps) | 0.44 | 0.33 | |
| Duration (including interest rate swaps) | 0.44 | 0.33 | 0.12 |
| Floating rate as a % total | 85.29% | 45.62% | |
| Fixed rate as a % total | 14.71% | 54.38% | |
| Net Portfolio's Sensitivity to 100bp change in interest rate | | | 0.99% |
| POLICY LIMIT: | | | +/- 1.50 |

| December 31, 2019 | Assets | Liabilities | Net |
|---|---|---|---|
| Present Value | 425,605,069 | (344,705,299) | 80,899,770 |
| Duration (excluding interest rate swaps) | 0.52 | 0.33 | |
| Duration (including interest rate swaps) | 0.52 | 0.33 | 0.19 |
| Floating rate as a % total | 82.99% | 39.78% | |
| Fixed rate as a % total | 17.01% | 60.22% | |
| Net Portfolio's Sensitivity to 100bp change in interest rate | | | 1.30% |
| 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$708,775 or 0.68%.

## (6) Financial Risk Management, continued

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.

| September 30, 2020 | 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 | 59,198,982 | 94,010,203 | 85,280,885 | 90,359,146 | 12,731,133 | 34,485,538 | 376,065,887 |
| *Liabilities:* | | | | | | | |
| Loans, gross | 34,568,180 | 19,625,000 | 41,211,543 | 27,587,663 | 14,136,364 | 17,684,489 | 154,813,239 |
| Net position | 24,630,802 | 74,385,203 | 44,069,342 | 62,771,483 | (1,405,231) | 16,801,049 | 221,252,648 |

| December 31, 2019 | 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 | 58,499,952 | 84,476,149 | 56,743,072 | 116,423,456 | 19,389,168 | 55,611,904 | 391,143,701 |
| *Liabilities:* | | | | | | | |
| Loans, gross | 45,568,181 | 0 | 32,639,802 | 68,532,468 | 1,136,364 | 7,389,034 | 155,265,849 |
| Net position | 12,931,771 | 84,476,149 | 24,103,270 | 47,890,988 | 18,252,804 | 48,222,870 | 235,877,852 |

*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 financial 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.

**(6) Financial Risk Management, continued**

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 Internal Auditor.

Actions implemented due to the COVID-19 pandemic

The Corporation has successfully implemented its Business Continuity Plan, implicating among other things, that 100% of its staff is working remotely (Telecommuting).

This has increased the frequency of risks associated with Cybersecurity, among them:

- Increased e-mail attack attempts.
- Increased attack attempts due to the widespread use of remote connection protocols.

To counteract these risks, the management of the Corporation has reinforced the controls as follows:

- Monitoring of main attack vectors was expanded: e-mail and end-user devices.
- Frequency of vulnerability scans has been intensified.

*(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:

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Tier 1 capital | 104,479,394 | 98,871,599 |
| Total capital | 104,479,394 | 98,871,599 |
| Risk weight of 50% | 20,843,610 | 18,294,052 |
| Risk weight of 100% | 325,541,620 | 344,497,716 |
| Risk weight of 150% | 98,236,959 | 79,156,877 |
| Risk weight of 250% | 13,484,800 | 13,776,567 |
| Risk weight of 400% | 24,095,042 | 23,992,568 |
| Subtotal for Credit Risk | 482,202,031 | 479,717,780 |
| Concentration | 186,788,530 | 204,348,425 |
| Operational Risk | 74,271,961 | 74,271,961 |
| Risk - weighted assets | 743,262,522 | 758,338,166 |
| Capital adequacy | 14.06% | 13.04% |
| Required capital adequacy (as established by the Board) | 12.50% | 12.50% |

For two assets, the asset available for sale and the solar power company (investment property), a 400% risk weight was used as CIFI owns shares in these companies. For the remaining investment property, a 100% risk weight was used.

## (7) Furniture, Equipment and Improvements

Furniture, equipment and improvements are summarized as follows:

| | September 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Furniture and Equipment | Property Improvements | Computer Equipment | Rights of Use-Assets[1] | Total |
| **Cost:** | | | | | |
| Balance at January 1, 2020 | 147,755 | 1,120,006 | 167,376 | 1,832,332 | 3,267,469 |
| Sales | 0 | 0 | (4,264) | 0 | (4,264) |
| **Balance at end of period** | 147,755 | 1,120,006 | 163,112 | 1,832,332 | 3,263,205 |
| **Accumulated depreciation:** | | | | | |
| Balance at January 1, 2020 | 100,573 | 329,361 | 83,729 | 229,041 | 742,704 |
| Expense of the period | 22,060 | 138,634 | 39,383 | 171,781 | 371,858 |
| Sales | 0 | 0 | (2,505) | 0 | (2,505) |
| **Balance at end of period** | 122,633 | 467,995 | 120,607 | 400,822 | 1,112,057 |
| **Net balance** | 25,122 | 652,011 | 42,505 | 1,431,510 | 2,151,148 |

(1) They mainly consist of rights of use-assets corresponding to office premises under lease (see note 3 (r)).

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Furniture and Equipment | Property Improvements | Computer Equipment | Rights of Use-Assets[1] | Total |
| **Cost:** | | | | | |
| Balance at January 1, 2019 | 147,755 | 739,654 | 146,543 | 0 | 1,033,952 |
| Additions/Adoption of IFRS 16 | 0 | 380,352 | 55,205 | 1,832,332 | 2,267,889 |
| Sales | 0 | 0 | (34,372) | 0 | (34,372) |
| **Balance at end of year** | 147,755 | 1,120,006 | 167,376 | 1,832,332 | 3,267,469 |
| **Accumulated depreciation:** | | | | | |
| Balance at January 1, 2019 | 71,159 | 178,747 | 56,498 | 0 | 306,404 |
| Expense of the year | 29,414 | 150,614 | 60,224 | 229,041 | 469,293 |
| Sales | 0 | 0 | (32,993) | 0 | (32,993) |
| **Balance at end of year** | 100,573 | 329,361 | 83,729 | 229,041 | 742,704 |
| **Net balance** | 47,182 | 790,645 | 83,647 | 1,603,291 | 2,524,765 |

(1) They mainly consist of rights of use-assets corresponding to office premises under lease (see note 3 (r)).

The Corporation has an intangible asset recorded as other assets for an amount of US$90,881, that generated an amortization of US$13,372 during the period ended September 30, 2020.

## (8) Investment Property

Investment property is summarized as follows:

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Balance at beginning of the year | 13,326,832 | 0 |
| Changes in fair value | 1,919,772 | 0 |
| Increase in assets received in satisfaction of loans | 0 | 13,326,832 |
| **Balance at end of period** | 15,246,604 | 13,326,832 |

In November 2019, CIFI accelerated the loan granted to a solar-power company in Honduras, 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 the operation of the plant. As a consequence, investment property for US$6,023,762 was recognized (December 31, 2019: US$5,456,172).

In December 2019, the Corporation granted a new loan with an independent source of payment from the original sponsor, as a result of a restructured transaction, which new outstanding balance is of US$6,956,481. Additionally, a tract of land, was received in lieu of payment as part of the restructuring and was recorded as investment property for US$9,222,842 (December 31, 2019: US$7,870,660).

The assets received in satisfaction of loans, recognized on each of the aforementioned transactions, were based on qualified independent appraisals less cost of sale, adjusted by time value of money.

## (9) Loans Payable

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

| | Maturity | September 30, 2020 | December 31, 2019 |
|---|---|---|---|
| **Foreign Financial Institutions** | | | |
| Corporación Andina de Fomento | 2020 | 0 | 10,000,000 |
| Corporación Andina de Fomento - Syndicate | 2020 | 9,857,143 | 19,714,286 |
| Occidental Bank (Barbados) Ltd. | 2021 | 5,000,000 | 2,500,000 |
| Bancaribe Curacao Bank NV | 2021 | 8,000,000 | 0 |
| Norwegian Investment Fund | 2021 | 25,000,000 | 0 |
| Opec Fund for International Development (OFID) | 2022 | 4,090,909 | 6,818,182 |
| German Investment Corporation (KFW DEG) | 2022 | 15,625,000 | 18,750,000 |
| Global Climate Partnership Fund | 2022 | 20,800,000 | 26,000,000 |
| International Finance Bank (IFB) | 2023 | 21,428,571 | 25,000,000 |
| Caribbean Development Bank | 2024 | 7,957,216 | 9,661,761 |
| FinDev | 2025 | 15,000,000 | 0 |
| **Local Financial Institutions** | | | |
| MMG Bank, Corp. | 2020 | 0 | 10,000,000 |
| Pacific Bank | 2021 | 3,000,000 | 0 |
| Banco Mercantil, S. A. | 2021 | 3,500,000 | 3,500,000 |
| Banco Internacional de Costa Rica, S. A. | 2021 | 5,000,000 | 10,000,000 |
| Banco Internacional de Costa Rica, S.A. | 2021 | 10,554,400 | 13,321,620 |
| | | 154,813,239 | 155,265,849 |
| Deferred costs | | (1,235,019) | (1,373,807) |
| Total | | 153,578,220 | 153,892,042 |

The effective interest rates on loans with financial entities range between 2.59% and 6.00% per annum (December 31, 2019: between 3.51% and 6.61%).

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 September 30, 2020 and December 31, 2019:

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Loans payable outstanding, gross | 153,578,220 | 153,892,042 |
| Undrawn balance of committed lines of credit | 10,000,000 | 48,000,000 |
| Undrawn balance of uncommitted lines of credit | 18,245,600 | 20,678,380 |

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.

## (10) 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 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:

| | | | September 30, 2020 | December 31, 2019 |
|---|---|---|---|---|
| **Corporate Bonds** | **Nominal Interest Rate** | **Maturity Date** | **Carrying Amount** | **Carrying Amount** |
| Series A | 3.36% | 2021 | 10,000,000 | 10,000,000 |
| Series B | 3.78% | 2023 | 5,000,000 | 5,000,000 |
| Series C | 4.52% | 2025 | 12,934,000 | 12,934,000 |
| Series D | 4.74% | 2023 | 3,300,000 | 4,200,000 |
| Series E | 4.52% | 2025 | 2,000,000 | 2,000,000 |
| Series F | 4.39% | 2025 | 2,000,000 | 2,000,000 |
| Series G | 4.33% | 2024 | 17,500,000 | 17,500,000 |
| Series H | 4.49% | 2025 | 7,500,000 | 7,500,000 |
| Series I | 4.49% | 2025 | 7,500,000 | 7,500,000 |
| Series J | 4.33% | 2024 | 27,500,000 | 27,500,000 |
| Series K | 3.99% | 2023 | 1,500,000 | 1,500,000 |
| Series L | 4.44% | 2023 | 566,000 | 566,000 |
| | | | 97,300,000 | 98,200,000 |
| Remeasurement of hedged item | | | 8,838,523 | 4,857,999 |
| | | | 106,138,523 | 103,057,999 |

**(10) Bonds, continued**

Through Resolution SMV-337-19 of the Superintendency of the Securities Market, on August 20, 2019, the public offering of corporate green bonds program in Panama was made, with a nominal value of US$200,000,000. The corporate green 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 green bonds issued by the Corporation are detailed below:

| Green Bonds | Nominal Interest Rate | Maturity Date | September 30, 2020 Carrying Amount | December 31, 2019 Carrying Amount |
|---|---|---|---|---|
| Series A | 4.48% | 2022 | 14,997,000 | 14,997,000 |
| Series B | 4.98% | 2024 | 12,000,000 | 12,000,000 |
| Series C | 4.98% | 2024 | 995,000 | 746,000 |
| Series D | 4.75% | 2024 | 7,000,000 | 7,000,000 |
| Series E | 4.72% | 2024 | 7,000,000 | 7,000,000 |
| Series F | 4.50% | 2023 | 500,000 | 0 |
| Series G | 5.25% | 2023 | 1,000,000 | 0 |
| Series F | 4.75% | 2021 | 250,000 | 0 |
| | | | 43,742,000 | 41,743,000 |
| Remeasurement of hedged item | | | 1,072,490 | (56,108) |
| | | | 44,814,490 | 41,686,892 |

**(11) 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.

## (11) Commercial Paper, continued

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

| VCN | Nominal Interest Rate | Maturity Date | September 30, 2020 Carrying Amount | December 31, 2019 Carrying Amount |
|---|---|---|---|---|
| Series J | 4.13% | 2020 | 0 | 4,000,000 |
| Series K | 4.25% | 2020 | 0 | 5,000,000 |
| Series L | 4.13% | 2020 | 0 | 2,000,000 |
| Series M | 4.13% | 2020 | 1,000,000 | 1,000,000 |
| Series N | 4.00% | 2020 | 0 | 2,000,000 |
| Series O | 3.88% | 2020 | 0 | 2,000,000 |
| Series P | 4.13% | 2020 | 8,500,000 | 8,308,000 |
| Series Q | 4.13% | 2020 | 1,000,000 | 835,000 |
| Series U | 4.50% | 2020 | 3,000,000 | 0 |
| Series V | 4.50% | 2020 | 1,000,000 | 0 |
| Series X | 4.25% | 2021 | 2,270,000 | 0 |
| Series Y | 4.75% | 2021 | 1,500,000 | 0 |
| Series Z | 4.25% | 2021 | 1,935,000 | 0 |
| Series AA | 4.25% | 2021 | 2,250,000 | 0 |
| Series AB | 4.25% | 2021 | 3,000,000 | 0 |
| Series AC | 4.25% | 2021 | 5,000,000 | 0 |
| | | | 30,455,000 | 25,143,000 |

## (12) Equity

Share capital

The Corporation's share capital is comprised of 54,000,001 (December 2019: 54,000,001) common shares of US$1 par value, for a total of US$54,000,001 (December 2019: US$54,000,001). In 2019, shares acquired for treasury amount to 3,673,618.

The issued and outstanding share capital is distributed as follows:

| | September 30, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Acquired Capital | Ownership Interest | Acquired Capital | Ownership Interest |
| Norwegian Investment Fund for Developing Countries | 17,263,819 | 34.30% | 17,263,819 | 34.30% |
| Valora Holdings, S.A. | 10,408,585 | 20.68% | 10,408,585 | 20.68% |
| Central American Bank for Economic Integration | 6,122,697 | 12.17% | 6,122,697 | 12.17% |
| Caixa Banco de Investimento, S.A. | 6,122,697 | 12.17% | 6,122,697 | 12.17% |
| Caribbean Development Bank | 3,673,618 | 7.30% | 3,673,618 | 7.30% |
| Finnish Fund for Industrial Cooperation Ltd. | 3,673,618 | 7.30% | 3,673,618 | 7.30% |
| Banco Pichincha C.A. | 3,061,349 | 6.08% | 3,061,349 | 6.08% |
| | 50,326,383 | | 50,326,383 | |

## (12) Equity, continued

In June 2019, Valora Holdings, S.A. a Panamanian corporation was created by the management team of CIFI, exclusively to fully purchase the ownership interest of Banistmo, S.A. and the International Finance Corporation in shares of the Corporation, resulting in an aggregate ownership interest of 20.68%. By making this purchase, the management team of CIFI is fully aligned with the vision for the Corporation of being a key player between the institutional investors and the infrastructure sector in the middle market in Latin America and the Caribbean. The new alignment between the management team and the shareholders is a significant step towards the implementation of the Strategic Plan of the Corporation.

## (13) 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 period, as follows:

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| Net income | 5,651,236 | 2,973,529 |
| Number of shares | 50,326,383 | 50,326,383 |
| Earnings per share | 0.11 | 0.06 |

## (14) Derivatives Held for Risk Management Purposes

*Interest rate derivatives*

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

As of September 30, 2020, 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$) | 0 | 0 | 0 | 120,687,000 | 0 |
| Average fixed interest rate | 0 | 0 | 0 | 3.35% | 0% |
| Average spread over Libor | 0 | 0 | 0 | 3.13% | 0% |
| **Interest rate risk** | | | | | |
| **Hedge of issued loans** | | | | | |
| Notional amount (US$) | 0 | 0 | 0 | 0 | 9,722,222 |
| Average fixed interest rate | 0 | 0 | 0 | 0 | 8.25% |
| Average spread over Libor | 0 | 0 | 0 | 0 | 0% |

## (14) Derivatives Held for Risk Management Purposes, continued

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

| | | | | September 30, 2020 | | | |
|---|---|---|---|---|---|---|---|
| US$ | Nominal amount | Carrying amount Assets | Carrying amount 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 | 120,687,000 | 10,568,169 | 0 | Derivative assets held for risk management | 9,911,013 | 320,613 | Other income – gain on derivative instruments |
| Interest rate swaps – hedge of loans | 9,722,222 | 0 | 540,902 | Derivative liabilities held for risk management | 540,902 | 0 | Other income – gain on derivative instruments |

| | | | | December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|
| US$ | Nominal amount | Carrying amount Assets | Carrying amount 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 | 120,687,000 | 5,138,435 | 0 | Derivative assets held for risk management | 4,801,891 | 163,182 | Other income – gain on derivative instruments |
| Interest rate swaps – hedge of loans | 20,551,200 | 129,834 | 0 | Derivative liabilities held for risk management | 129,834 | 0 | Other income – gain on derivative instruments |

## (14) Derivatives Held for Risk Management Purposes, continued

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

| | September 30, 2020 | | | | |
|---|---|---|---|---|---|
| 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 | 120,687,000 | 0 | (9,911,013) | (9,911,013) |
| Loans | 9,722,222 | | 540,902 | | 540,902 |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| 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 | 120,687,000 | 0 | (4,801,891) | (4,801,891) |
| Loans | 20,551,200 | | 0 | (129,834) | (129,834) |

## (15) 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.

**(15) Fair Value of Financial Instruments, continued**

- 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.

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:

| | September 30, 2020 | | |
|---|---|---|---|
| | Carrying amount | Level 2 | Level 3 |
| Investment property, | 15,246,604 | 0 | 15,246,604 |
| Derivative assets | 10,568,169 | 10,568,169 | 0 |
| Derivative Liabilities | 540,902 | 540,902 | 0 |

| | December 31, 2019 | | |
|---|---|---|---|
| | Carrying amount | Level 2 | Level 3 |
| Investment property, | 13,326,832 | 0 | 13,326,832 |
| Derivative assets | 5,268,269 | 5,268,269 | 0 |

**(15) Fair Value of Financial Instruments, continued**

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, except those short-term financial instruments which carrying value approximates fair value:

| | September 30, 2020 | |
|---|---|---|
| | Carrying amount | Fair value Level 3 |
| Investment securities | 4,553,447 | 4,522,906 |
| Loans receivable | 366,871,504 | 365,212,001 |
| Loans payable | 153,578,220 | 158,298,269 |
| Bonds | 150,953,013 | 151,825,127 |
| Commercial paper | 30,455,000 | 30,651,103 |

| | December 31, 2019 | |
|---|---|---|
| | Carrying amount | Fair value Level 3 |
| Investment securities | 1,897,964 | 1,914,330 |
| Loans receivable | 378,302,168 | 405,271,603 |
| Loans payable | 153,892,042 | 162,365,866 |
| Bonds | 144,744,891 | 156,601,704 |
| Commercial paper | 25,143,000 | 23,737,729 |

During September 30, 2020, there have not been transfers between Levels of the fair value hierarchy (December 31, 2019: 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)* *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)).

*(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.

## (15) Fair Value of Financial Instruments, continued

*(d) Bonds and commercial paper*

Fair values of bonds and commercial paper are calculated by discounting committed cash flows at current market rates for instruments with similar maturities.

*(e) Investment Property*

Fair values of investment properties are determined using a model based on observables market, such a property appraisal and expected cash flows at current market in order to bring the future value to present value.

## (16) 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, 2020, the Corporation has commitments and contingencies in the amount of US$37,133,773 (December 31, 2019: US$41,588,104), 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.

## (17) Subsequent Event - Effects of the Global Pandemic for the Coronavirus or Covid-19

Effects of the global pandemic regarding the spread of the coronavirus or Covid-19
In December 2019, the appearance of a new coronavirus strain named Covid-19 was reported, which has spread as a pandemic among the world population during the first quarter of 2020. Cases of this pandemic have already been reported in Panama and in March 2020 the closure of most economic activities nationwide was ordered.

This situation could significantly decrease the Corporation's economic activity and negatively affect the consolidated financial situation, the consolidated financial performance and the consolidated cash flows in the future. Currently, it is not possible to determine or quantify the effect that such a subsequent event may produce in the Corporation, since it will depend on future developments at the national and international level, which are uncertain and cannot be predicted.