

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

Consolidated Interim Financial Statements

(Unaudited)

March 31, 2018

(With Independent Auditors' Report
on Review of Consolidated Interim
Financial Statements)

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

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**INDEPENDENT AUDITORS' REPORT ON REVIEW OF
CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The Board of Directors

Corporación Interamericana para el Financiamiento de Infraestructura, S. A.

Introduction

We have reviewed the accompanying consolidated statement of financial position of Corporación Interamericana para el Financiamiento de Infraestructura, S. A. and Subsidiaries (the "Corporation") as at March 31, 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes, comprising significant accounting policies and other explanatory information ("the consolidated interim financial statements"). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards (IFRS) including the requirements of IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Corporation as at March 31, 2018, and its financial performance and its cash flows for the three-month period then ended in accordance with IFRS including the requirements of IAS 34, "Interim Financial Reporting".

KPMG

Panama, Republic of Panama
June 8, 2018

**CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE
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Consolidated Statement of Financial Position

March 31, 2018

(Expressed in US Dollars)

	<u>Note</u>	<u>March 31, 2018 (Unaudited)</u>	<u>December 31, 2017 (Audited)</u>
<u>Assets</u>			
Cash and cash equivalents	5	12,619,527	30,356,948
Loans receivable, net, at amortized cost	5	347,817,415	343,635,979
Accrued interest receivable		5,840,416	5,810,464
Assets held-for-sale, net	5	2,359,679	2,759,566
Furniture, equipment and improvements, net	6	801,786	826,643
Receivables from advisory and structuring services	5	2,734,187	5,514,073
Other assets		1,370,921	1,057,678
Total assets		<u>373,543,931</u>	<u>389,961,351</u>
<u>Liabilities</u>			
At amortized cost:			
Loans payable, net	7	248,000,670	282,573,562
Bonds	5, 8	13,699,000	0
Commercial paper	5, 9	13,620,000	5,000,000
Accrued interest payable		2,981,015	1,798,919
Other accounts payable		1,084,652	1,813,324
Total liabilities		<u>279,385,337</u>	<u>291,185,805</u>
<u>Equity</u>			
Share capital	10	54,000,001	54,000,001
Additional paid-in capital		85,000	85,000
Retained earnings		40,073,593	44,690,545
Total equity		<u>94,158,594</u>	<u>98,775,546</u>
Total liabilities and equity		<u>373,543,931</u>	<u>389,961,351</u>
<u>Commitments and contingencies</u>			
Loans pending disbursement	15	33,676,585	44,317,746
Undrawn balance of credit facilities	5, 7	61,810,300	70,867,714

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
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Consolidated Statement of Comprehensive Income

For the period ended March 31, 2018

(Expressed in US Dollars)

	Note	March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited)
Interest income:			
On cash and cash equivalents		83,593	2,742
On loans receivable		7,019,053	6,213,424
Total interest income		<u>7,102,646</u>	<u>6,216,166</u>
Interest expense:			
On loans payable		(3,579,807)	(3,313,098)
On debt securities		(186,360)	0
Total interest expense		<u>(3,766,167)</u>	<u>(3,313,098)</u>
Net interest income		<u>3,336,479</u>	<u>2,903,068</u>
Other income:			
Advisory and structuring fees, net		727,627	760,375
Total other income		<u>727,627</u>	<u>760,375</u>
Operating income		4,064,106	3,663,443
Provision for loan losses	5	(311,596)	(14,980)
Impairment loss on investment securities	5	0	(93,488)
Impairment loss on assets held-for-sale	5	(399,887)	0
Depreciation expense	6	(32,919)	(29,544)
Personnel expenses		(1,186,378)	(874,607)
Other administrative expenses		(836,763)	(589,410)
Net income before tax		1,296,563	2,061,414
Income taxes	12	0	(203,535)
Net income for the period		<u>1,296,563</u>	<u>1,857,879</u>
Other comprehensive income:			
Items that are or may be reclassified to profit or loss:			
Fair value reserve:			
Net changes in fair value		0	(6,516)
Net amount transferred to profit or loss		0	3,258
Other comprehensive income (loss) for the period		<u>0</u>	<u>(3,258)</u>
Total comprehensive income for the period		<u>1,296,563</u>	<u>1,854,621</u>
Basic earnings per share	11	<u>0.02</u>	<u>0.03</u>

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

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Consolidated Statement of Changes in Equity

For the period ended March 31, 2018

(Expressed in US Dollars)

	Share capital	Additional paid-in capital	Fair value reserve	Retained earnings	Total equity
Balance at December 31, 2016 (Audited)	54,000,001	85,000	5,044	37,077,141	91,167,186
Net income for the period	0	0	0	1,857,879	1,857,879
Other comprehensive income					
Net changes in fair value	0	0	(6,516)	0	(6,516)
Net amount transferred to profit or loss	0	0	3,258	0	3,258
Total other comprehensive loss	0	0	(3,258)	0	(3,258)
Total comprehensive (loss) income for the period	0	0	(3,258)	1,857,879	1,854,621
Balance at March 31, 2017 (Unaudited)	54,000,001	85,000	1,786	38,935,020	93,021,807
Balance at December 31, 2017 (Audited)	54,000,001	85,000	0	44,690,545	98,775,546
Impact of adopting IFRS 9 at January 1, 2018 (see note 13)	0	0	0	(4,745,189)	(4,745,189)
Balance at January 1, 2018	54,000,001	85,000	0	39,945,356	94,030,357
Net income for the period	0	0	0	1,296,563	1,296,563
Total comprehensive income for the period	0	0	0	1,296,563	1,296,563
Transactions with owners of the Corporation					
Dividends paid	0	0	0	(1,168,326)	(1,168,326)
Balance at March 31, 2018 (Unaudited)	54,000,001	85,000	0	40,073,593	94,158,594

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

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Consolidated Statement of Cash Flows

For the period ended March 31, 2018

(Expressed in US Dollars)

	Note	March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited)
Cash flows from operating activities			
Net income for the period		1,296,563	1,857,879
Adjustments for:			
Provision for loan losses	5	311,596	14,980
Impairment loss on investment securities	5	0	93,488
Impairment loss on assets held-for-sale	5	399,887	0
Depreciation	6	32,919	29,544
Net interest income		(3,336,479)	(2,903,068)
Income tax expense	12	0	(203,535)
		<u>(1,295,514)</u>	<u>(1,110,712)</u>
Changes in:			
Other assets		2,663,988	757,336
Other accounts payable		(728,672)	176,314
Derivative liabilities held for risk management		0	3,258
Loan collections		49,905,229	48,026,749
Loan disbursements		<u>(59,143,450)</u>	<u>(76,930,715)</u>
		<u>(7,302,905)</u>	<u>(27,967,058)</u>
Income tax paid		(197,345)	0
Interest received		7,072,694	5,377,066
Interest paid		<u>(2,584,071)</u>	<u>(1,031,644)</u>
		<u>4,291,278</u>	<u>4,345,422</u>
Net cash flows from operating activities		<u>(4,307,141)</u>	<u>(24,732,348)</u>
Cash flows from investing activities			
Acquisition of furniture, equipment and improvements	6	<u>(8,062)</u>	<u>(78,373)</u>
Net cash flows from investing activities		<u>(8,062)</u>	<u>(78,373)</u>
Cash flows from financing activities			
Proceeds from loans payable		51,911,169	51,689,666
Repayment of loans payable		(86,484,061)	(28,022,157)
Proceeds from bonds	8	13,699,000	0
Proceeds from commercial paper	9	8,620,000	0
Dividends paid		<u>(1,168,326)</u>	<u>0</u>
Net cash flows from financing activities		<u>(13,422,218)</u>	<u>23,667,509</u>
Net decrease in cash and cash equivalents		(17,737,421)	(1,143,212)
Cash and cash equivalents at the beginning of the period		<u>30,356,948</u>	<u>12,247,943</u>
Cash and cash equivalents at the end of the period		<u>12,619,527</u>	<u>11,104,731</u>

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

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March 31, 2018

(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 Participation	
			2018	2017
CIFI SEM, S. A.	Personnel Management	Panama	100%	100%
CIFI PANAMA, S. A.	Lending & Financing Structuring	Panama	100%	100%
CIFI LATAM, S. A.	Lending & Financing Structuring	Panama	100%	100%

(2) Basis of Preparation

(a) Statement of compliance

The consolidated interim financial statements have been prepared in conformity with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standards (IAS) No. 34, Interim Financial Reporting of IFRS.

International Accounting Standard No.34 does not require disclosure in interim financial information of all notes included in annual financial statements prepared according to the requirements of IFRSs. The results of operations for interim periods are not necessarily indicative of results that may be expected for the full year.

The consolidated interim financial statements were approved by the management of the Corporation on June 7, 2018.

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(b) *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, certain investment securities that are measured at fair value and assets held-for-sale measured at fair value less costs to sell.

(c) *Functional and presentation currency*

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

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

(d) *Use of estimates and judgments*

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

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

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

- Allowance for loan losses and interest receivable – note 5;
- Impairment of assets held-for-sale – note 5;
- Fair value of financial instruments – note 14.

(3) Significant Accounting Policies

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

(a) *Basis of Consolidation*

(i) *Subsidiaries*

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

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

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

(b) *Foreign currency transactions*

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

(c) *Cash and cash equivalents*

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

(d) *Financial assets and financial liabilities*

(i) **Recognition and initial measurement**

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

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

(ii) **Classification**

Policy applicable before January 1, 2018

Originated loans are loans granted by the Corporation by providing money to a debtor, other than those structured with the intention of short-term profit taking.

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

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

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

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Policy applicable from January 1, 2018

Financial assets

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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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 realising 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 compensations is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Corporation's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

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

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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.

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

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- (iii) **Derecognition**
A financial asset is derecognized when the Corporation loses control over the contractual rights that comprise the asset. This occurs when the rights are realized, expire, or are surrendered. A financial liability is derecognized when it is extinguished.
- (iv) **Modifications of financial assets**
Financial assets
If the terms of a financial asset are modified, the Corporation evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

Policy applicable before January 1, 2018

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

Policy applicable from January 1, 2018

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

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

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

If there is no quoted price in an active market, then the Corporation uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all 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.

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

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

(vi) Identification and measurement of impairment

Policy applicable before January 1, 2018

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

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

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

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

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

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Policy applicable from January 1, 2018

Financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

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

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

- 12-month ECL: The Corporation recognizes a credit loss allowance at an amount equal to 12-month expected credit losses. This represents the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, assuming that credit risk has not increased significantly after initial recognition.
- Lifetime ECL not credit impaired: The Corporation recognizes a credit loss allowance at an amount equal to lifetime expected credit losses (LTECL) for those financial assets which are considered to have experienced a significant increase in credit risk since initial recognition. This requires the computation of ECL based on lifetime probability of default (LTPD) that represents the probability of default occurring over the remaining lifetime of the financial assets. Allowance for credit losses are higher in this stage because of an increase in credit risk and the impact of a longer time horizon being considered compared to 12-month ECL.
- Lifetime ECL credit impaired: The Corporation recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a probability of default (PD) of 100% via the recoverable cash flow for the asset, for those financial assets that are credit-impaired. The treatment of loans in this stage remains substantially the same as the treatment of impaired loans under IAS 39 except for homogeneous portfolios.

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

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

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The ECL measurement for life is applied if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition and if the 12-month ECL measurement is applied if there is no such increase. An entity may determine that the credit risk of a financial asset has not significantly increased if the asset has a low credit risk at the reporting date; however, the ECL measurement for life always applies for accounts receivable and asset contracts without a significant financial component.

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

(e) *Investment securities*

Policy applicable before January 1, 2018

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

Fair value through profit or loss:

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

Available-for-sale:

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

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

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

Held-to-maturity:

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

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

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

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

(f) *Loans receivable*

Policy applicable before January 1, 2018

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

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

Policy applicable from January 1, 2018

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

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

(g) Allowance for loan losses

Policy applicable before January 1, 2018

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

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

Impaired loans assessed

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

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

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Restructured loans

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

Impairment reversal

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

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

Policy applicable from January 1, 2018

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

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

No impairment loss is recognized on equity investments.

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

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

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

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

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.

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- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Corporation if the commitment is drawn down and the cash flows that the Corporation expects to receive.
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Corporation expects to recover.

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as a default or past due event
- 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

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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. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

Write-off

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.

(h) 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.

(i) Furniture, equipment and improvements

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

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

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

Improvements	5 years
Furniture and equipment	4-5 years

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

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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.

(j) *Other accounts payable*

Other accounts payable are carried at amortized cost.

(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.

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

(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 March 31, 2018.

(m) *Income and expense recognition*

(i) *Interest income and expense*

Policy applicable before January 1, 2018

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

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

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

Policy applicable from January 1, 2018

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

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

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

Amortized cost and gross carrying amount

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at 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, for financial assets adjusted for any expected credit loss allowance (or impairment allowance before January 1, 2018).

The gross carrying amount of a financial asset is the amortised 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.

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

(ii) **Fee and commission income and expenses**

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

Other fee and commission income 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.

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

(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 the management to make decisions about the resources that will be assigned to the segment and thus evaluate its performance, and for which financial information is available for this purpose.

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

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- (q) Standard issued but not yet effective leases
IFRS 16 leases introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term and leases of low-value items. Lessor accounting remains similar to the current standard.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after January 1, 2019.

In the opinion of management, the application of the IFRS 16 will cause no significant changes in the consolidated interim financial statements.

(4) Balances and Transactions with Related Parties

For the period ended March 31, 2018 the Corporation entered transactions with parties that are considered to be related.

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

<u>Type of entity</u>	<u>Relationship</u>	<u>March 31, 2018</u>			
		<u>Assets - Deposits Due from Banks</u>	<u>Liabilities - Loans and Accrued Interest Payable</u>	<u>Interest Income on Deposits</u>	<u>Interest Expenses on Loans Payable</u>
Legal entities	Shareholders	<u>3,388</u>	<u>23,543,076</u>	<u>0</u>	<u>283,417</u>

<u>Type of entity</u>	<u>Relationship</u>	<u>December 31, 2017</u>		<u>March 31, 2017</u>	
		<u>Assets - Deposits Due from Banks</u>	<u>Liabilities - Loans and Accrued Interest Payable</u>	<u>Interest Income on Deposits</u>	<u>Interest Expenses on Loans Payable</u>
Legal entities	Shareholders	<u>3,427</u>	<u>57,065,864</u>	<u>242</u>	<u>599,123</u>

The Corporation has access to US\$22,268,900 (December 31, 2017: US\$14,710,850) of undisbursed committed and uncommitted lines of credit with related parties.

Members of the Board of Directors have received remuneration of US\$10,469 (March 31, 2017: US\$2,250) for attending meetings during the period.

For the period ended March 31, 2018 personnel expenses include salaries and benefits paid to key executive officers for US\$244,338 (March 31, 2017: US\$281,934).

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

- (a) All full-time employees are required to participate in the following insurance plans, unless proof of equivalent coverage is provided:
- Medical insurance
 - Health and life insurance
 - Travel insurance.
- (b) Retirement plan contributions (Simple IRA): The Corporation contributes 3% (December 31, 2017: 3%) of each employee's annual base salary. The Corporation makes its contributions to an independent fund manager and expenses those contributions as incurred. The Corporation has no future commitment to manage the funds contributed.

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

(5) Financial Risk Management

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

Risk management framework

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

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

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

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

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

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

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

The ALCO must abide by the guidelines established in the risk policies related to the 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 comprised by four (4) members of Management and is assisted by the Treasurer. As in the Credit Committee, any waiver to limits and policies will require approval from the Risk Committee.

The Procurement Committee, which is comprised by 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.

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

(a) *Credit risk*

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

Investment and Loan Portfolios

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

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

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

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Loans receivable and investment securities are as follows:

<u>Loans and investment securities, net</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Investment portfolio at fair value through OCI:		
Par value	8,080,925	8,080,925
Impairment losses on investment securities	<u>(8,080,925)</u>	<u>(8,080,925)</u>
Investment securities, net	<u>0</u>	<u>0</u>
Loans, at amortized cost	361,547,456	352,575,888
Allowance for loan losses	(12,164,085)	(7,107,300)
Deferred income	<u>(1,565,956)</u>	<u>(1,832,609)</u>
Loans, net	<u>347,817,415</u>	<u>343,635,979</u>
Total investments and loans (par value)	<u>369,628,381</u>	<u>360,656,813</u>
Total investments and loans, net	<u>347,817,415</u>	<u>343,635,979</u>

The loan portfolio includes the financing of project bonds totaling US\$2,542,795 (December 31, 2017: US\$2,694,168).

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

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

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

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

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

	<u>March 31, 2018</u>			<u>Total</u>	<u>December 31, 2017</u>
	<u>12-month ECL</u>	<u>Lifetime ECL not credit impaired</u>	<u>Lifetime ECL credit impaired</u>		
Loans and advances at amortized cost					
AAA / A-	35,244,543	0	0	35,244,543	35,549,927
BBB + / BBB-	37,563,083	0	0	37,563,083	30,085,374
BB+ / BB-	161,131,200	1,959,899	0	163,091,099	120,642,692
B+ / B-	94,461,137	9,542,795	6,644,125	110,648,057	144,297,222
<= CCC+	<u>0</u>	<u>5,248,914</u>	<u>9,751,760</u>	<u>15,000,674</u>	<u>22,000,673</u>
Total	<u>328,399,963</u>	<u>16,751,608</u>	<u>16,395,885</u>	<u>361,547,456</u>	<u>352,575,888</u>
Loss allowance	<u>(1,817,904)</u>	<u>(1,011,628)</u>	<u>(9,334,553)</u>	<u>(12,164,085)</u>	<u>(7,107,300)</u>
Carrying amount	<u>326,582,059</u>	<u>15,739,980</u>	<u>7,061,332</u>	<u>349,383,371</u>	<u>345,468,588</u>

Portfolio risk ratings are as follows:

<u>Risk rating</u>	<u>Loans</u>		<u>Investment securities</u>	
	<u>Gross</u>	<u>Net (*)</u>	<u>Nominal Value</u>	<u>Net (*)</u>
AAA / A-	35,549,927	35,549,927	0	0
BBB+ / BBB-	30,085,374	30,085,374	0	0
BB+ / BB-	120,642,692	120,477,143	0	0
B+ / B-	144,297,222	141,989,097	0	0
<= CCC+	<u>22,000,673</u>	<u>17,367,048</u>	<u>8,080,925</u>	<u>0</u>
	<u>352,575,888</u>	<u>345,468,589</u>	<u>8,080,925</u>	<u>0</u>

(*) Net of impairment allowance.

As of March 31, 2018, the Corporation has past due loans for US\$16,751,760 (December 31, 2017: US\$9,751,760); the non-accrued interest for those past due loans amounts to US\$989,093 (December 31, 2017: US\$624,637).

To secure some of its loans payable, at March 31, 2018 the Corporation has pledged to the lenders rights to cash flows derived from certain loans receivable granted by the Corporation; those cash flows derive from certain loan and investment security portfolios representing 38.59% (December 31, 2017: 31.48%) of the total assets.

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The following table show reconciliations from the opening to the closing balance of the allowance by class of financial instrument ECL:

	March 31, 2018			Total
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
Loans and advances at amortized cost				
Balance at January 1	1,408,782	1,109,154	9,334,553	11,852,489
Net remeasurement of loss allowance	57,112	(97,526)	0	(40,414)
New financial assets originated	<u>352,010</u>	<u>0</u>	<u>0</u>	<u>352,010</u>
Balance at March 31	<u>1,817,904</u>	<u>1,011,628</u>	<u>9,334,553</u>	<u>12,164,085</u>

Changes in the allowance for loan losses are as follows:

	December 31, 2017
Balance at beginning of year	4,765,658
Provision for the year	<u>2,341,642</u>
Balance at end of year	<u>7,107,300</u>

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

	March 31, 2018	December 31, 2017
Balance at beginning of period	8,080,925	7,638,966
Allowance for the period	0	441,959
Unamortized discounts reclassified to allowance	<u>0</u>	<u>0</u>
Balance at end of period	<u>8,080,925</u>	<u>8,080,925</u>

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

	March 31, 2018	December 31, 2017
Mortgage on fixed assets	151,940,083	141,187,575
Assets held in trust	163,857,413	165,885,098
Pledge on movable assets	25,657,675	24,952,415
Corporate guarantor	17,858,440	17,000,000
Unsecured	<u>2,233,845</u>	<u>3,550,800</u>
	<u>361,547,456</u>	<u>352,575,888</u>

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The investment securities portfolio for US\$8,080,925 (December 31, 2017: US\$8,080,925) is secured with mortgage on fixed assets. The impairment of this investment does not consider the mortgage because its realizable value and execution process are uncertain.

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

Loans and investment securities earn interest at rates ranging between 4.07% and 15.00% per annum (December 31, 2017: 4.07% and 15.00%).

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

<u>Tier</u>	<u>CIFI Credit Rating</u>	<u>Without Guarantees</u>	<u>With Guarantees</u>
I	BB or better	12.5%	18.0%
II	B+ to BB-	9.0%	15.0%
III	B to B-	5.0%	12.0%

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

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

	<u>% of total equity</u> <u>March 31, 2018</u>		<u>% of total equity</u> <u>December 31, 2017</u>	
	<u>Number of exposures</u>	<u>U.S. dollars</u>	<u>Number of exposures</u>	<u>U.S. dollars</u>
0 to 4.99%	16	41,268,209	17	43,919,267
5 to 9.99%	13	86,481,638	14	103,399,570
10 to 14.99%	15	172,597,609	12	143,757,051
15 to 18%	4	61,200,000	4	61,500,000
	<u>48</u>	<u>361,547,456</u>	<u>47</u>	<u>352,575,888</u>

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- **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 March 31, 2018, the Corporation complied with country risk exposure limits.

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

	March 31, 2018	December 31, 2017
Argentina	55,558,108	55,558,108
Brazil	49,077,971	50,667,429
Colombia	42,527,974	40,752,159
Peru	30,679,623	26,338,462
Ecuador	30,170,596	37,797,637
Honduras	28,374,788	18,248,913
Panama	22,094,100	22,809,820
Chile	19,753,955	18,811,538
Mexico	19,001,894	7,789,583
Nicaragua	15,145,431	15,707,989
Guatemala	13,600,000	13,600,000
Uruguay	13,244,544	13,549,927
Belize	13,125,000	13,125,000
Jamaica	10,607,731	9,402,413
Paraguay	6,666,666	15,500,000
Costa Rica	0	997,835
Gross loans and investment portfolio	<u>369,628,381</u>	<u>360,656,813</u>
Assets held-for-sale (Panama)	<u>2,359,679</u>	<u>2,759,566</u>
Total	<u>371,988,060</u>	<u>363,416,379</u>

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

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

	March 31, <u>2018</u>	December 31, <u>2017</u>
Gas & Oil	62,144,125	62,414,464
Solar Power	57,576,651	43,880,447
Airports and Seaports	54,932,506	62,560,522
Wind Power	34,177,861	35,302,937
Construction & Engineering	27,985,605	20,094,308
Co-generation (Biomass)	25,084,899	25,153,125
Hydro Power	22,671,609	25,184,242
Roads, Railroads and Other	14,925,560	13,149,745
Water & Sanitation	14,200,000	14,200,000
Telecommunications	14,000,000	15,000,000
Infrastructure Conglomerates	13,600,000	13,600,000
Tourism	10,823,077	11,338,462
Logistical Centers and Other	7,000,000	7,000,000
Geothermal	5,332,114	5,454,979
Thermo Power	5,174,374	5,325,747
Power Distribution	<u>0</u>	<u>997,835</u>
Gross loans and investment portfolio	369,628,381	360,656,813
Assets held-for-sale (Thermo Power)	<u>2,359,679</u>	<u>2,759,566</u>
Total	<u>371,988,060</u>	<u>363,416,379</u>

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

During the period ended March 31, 2018 write-downs of US\$399,887 on the asset held-for-sale were made to lower its carrying amount to its value in use (March 31, 2017: US\$0).

The carrying value of the asset held for sale as of March 31, 2018 is US\$2,359,679 (December 31, 2017: US\$2,759,566). As of March 31, 2018, the asset is being actively traded.

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

	Three-month period ended March 31, 2018	Year ended December 31, 2017
Balance at beginning of the period	(5,344,116)	(4,289,462)
Allowance for the period	<u>(399,887)</u>	<u>(1,054,654)</u>
Balance at end of the period	<u>(5,744,003)</u>	<u>(5,344,116)</u>

In addition, commissions receivable from corporate services rendered to third parties, amounting to US\$2,734,187 (December 31, 2017: US\$5,514,073), which are presented as receivable from advisory and structuring services, are classified as performing receivables.

(b) *Liquidity risk*

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

Management of liquidity risk

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

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

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.

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As of March 31, 2018, the Corporation had US\$12,619,527 (December 31, 2017: US\$30,356,948) in cash and cash equivalents, and maintains undisbursed and available balances of committed credit facilities with financial institutions for US\$11,000,000 (December 31, 2017: US\$25,000,000) with tenors between 2017 and 2020 (December 31, 2017: tenors between 2017 and 2020). Additionally, the Corporation maintains undisbursed and available balances of uncommitted short term revolving credit facilities with financial institutions for US\$50,810,300 (December 31, 2017: US\$45,867,714). (See note 7).

According to the Corporation's liquidity policies, the Corporation shall comply with the following two limits: i) Cumulative asset-liability gap from 1 to 365 days > 0, and ii) Probability of negative cash flow balance in 1 year ≤ 1%. To apply the policy, the asset-liability gap analysis aggregates all contractual cash flows of on- and off-balance sheet assets and liabilities in their corresponding time band and cash flows attributed to undrawn loan commitments and borrowings are allocated to the time band in which management expects its occurrence.

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

<u>March 31, 2018</u>	<u>1 to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 180 days</u>	<u>181 to 365 days</u>	<u>Over 365 days</u>	<u>Total</u>
Assets							
Cash and cash equivalents	12,619,527	0	0	0	0	0	12,619,527
Loans and investments, gross	7,315,565	6,919,930	1,639,637	2,392,632	21,690,265	329,670,352	369,628,381
Accrued interest receivable	1,986,973	1,229,003	2,430,188	194,252	0	0	5,840,416
Assets held-for-sale	0	0	0	0	0	2,359,679	2,359,679
Receivables from advisory and structuring services	<u>625,000</u>	<u>212,630</u>	<u>28,881</u>	<u>1,480,675</u>	<u>0</u>	<u>387,001</u>	<u>2,734,187</u>
Total	<u>22,547,065</u>	<u>8,361,563</u>	<u>4,098,706</u>	<u>4,067,559</u>	<u>21,690,265</u>	<u>332,417,032</u>	<u>393,182,190</u>
Liabilities							
Loans payable, gross	3,002,149	208,333	3,847,693	12,657,546	78,216,882	152,024,277	249,956,880
Bonds	0	0	0	0	0	13,699,000	13,699,000
Commercial paper	0	0	0	5,000,000	8,620,000	0	13,620,000
Accrued interest payable	<u>523,779</u>	<u>236,528</u>	<u>2,112,954</u>	<u>107,754</u>	<u>0</u>	<u>0</u>	<u>2,981,015</u>
Total	<u>3,525,928</u>	<u>444,861</u>	<u>5,960,647</u>	<u>17,765,300</u>	<u>86,836,882</u>	<u>165,723,277</u>	<u>280,256,895</u>
<u>December 31, 2017</u>	<u>1 to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 180 days</u>	<u>181 to 365 days</u>	<u>Over 365 days</u>	<u>Total</u>
Assets							
Cash and cash equivalents	30,356,948	0	0	0	0	0	30,356,948
Loans and investments, gross	38,846,807	17,521,805	2,347,887	5,942,874	19,693,745	276,303,695	360,656,813
Accrued interest receivable	1,776,228	955,684	2,539,169	539,383	0	0	5,810,464
Assets held-for-sale	0	0	0	0	0	2,759,566	2,759,566
Receivables from advisory and structuring services	<u>2,327,202</u>	<u>1,535,275</u>	<u>22,071</u>	<u>1,265,532</u>	<u>0</u>	<u>363,993</u>	<u>5,514,073</u>
Total	<u>73,307,185</u>	<u>20,012,764</u>	<u>4,909,127</u>	<u>7,747,789</u>	<u>19,693,745</u>	<u>279,427,254</u>	<u>405,097,864</u>
Liabilities							
Loans payable, gross	34,093,268	12,105,957	25,209,982	45,908,175	39,546,036	127,852,669	284,716,087
Commercial paper	0	0	0	0	5,000,000	0	5,000,000
Accrued interest payable	<u>682,843</u>	<u>470,008</u>	<u>355,844</u>	<u>290,224</u>	<u>0</u>	<u>0</u>	<u>1,798,919</u>
Total	<u>34,776,111</u>	<u>12,575,965</u>	<u>25,565,826</u>	<u>46,198,399</u>	<u>44,546,036</u>	<u>127,852,669</u>	<u>291,515,006</u>

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

<u>March 31, 2018</u>	<u>Carrying amount*</u>	<u>Gross nominal (outflow)</u>	<u>Less than 1 month</u>	<u>Over 1 to 3 months</u>	<u>Over 3 months to 1 year</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>
Non-derivative liabilities							
Loans payable, gross *	249,956,880	(249,956,880)	(3,002,149)	(38,556,026)	(59,510,792)	(146,612,388)	(2,275,525)
Bonds	13,699,000	(13,699,000)	0	0	0	(13,699,000)	0
Commercial paper	13,620,000	(13,620,000)	0	0	(13,620,000)	0	0
Interest **	2,981,015	(17,733,343)	(424,209)	(4,439,633)	(7,717,709)	(5,151,792)	0
Unrecognized loan commitments	0	(61,810,300)	(61,810,300)	0	0	0	0
Total	<u>280,256,895</u>	<u>(356,819,523)</u>	<u>(65,236,658)</u>	<u>(42,995,659)</u>	<u>(80,848,501)</u>	<u>(165,463,180)</u>	<u>(2,275,525)</u>
<u>December 31, 2017</u>	<u>Carrying amount*</u>	<u>Gross nominal (outflow)</u>	<u>Less than 1 month</u>	<u>Over 1 to 3 months</u>	<u>Over 3 months to 1 year</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>
Non-derivative liabilities							
Loans payable, gross *	284,716,087	(284,716,087)	(34,093,268)	(37,315,940)	(85,454,211)	(125,008,961)	(2,843,707)
Commercial paper	5,000,000	(5,000,000)	0	0	(5,000,000)	0	0
Interest **	1,798,919	(22,426,529)	(801,333)	(1,570,989)	(8,522,870)	(11,531,337)	0
Unrecognized loan commitments	0	(70,867,714)	(70,867,714)	0	0	0	0
Total	<u>286,515,006</u>	<u>(378,010,330)</u>	<u>(105,762,315)</u>	<u>(38,886,929)</u>	<u>(93,977,081)</u>	<u>(136,540,298)</u>	<u>(2,843,707)</u>

* Excludes deferred commissions

** Includes estimated interest payments at projected forward LIBOR rates

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

Interest rate risk

Interest rate risk is the risk that future cash flows and the value of underlying financial instruments will vary due to changes in market interest rates. Interest rate risk is managed by following an internal policy that limits the duration of equity to +/-1.5%. The ALCO Committee, with the oversight of the Risk 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 March 31, 2018, 11% (December 31, 2017: 8%) of interest-earning assets and 20% (December 31, 2017: 11%) of interest-bearing liabilities net of swaps are set to re-price after six months.

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

<u>March 31, 2018</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
Present Value	412,734,969	(286,256,346)	126,478,623
Sensitivity of variation (excluding IRS)	0.37	0.53	
Nominal amount of interest rate swaps	0		
Sensitivity of the IRS variation	0		
Sensitivity of variation (including IRS)	0.37	0.53	-0.16
Floating rate as a % total	89.85%	78.24%	
Fixed rate as a % total	10.15%	21.76%	
Net Portfolio's Sensitivity to 100bp change in interest rate			0.01%
POLICY LIMIT:			+/- 1.50

<u>December 31, 2017</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
Present Value	429,519,730	(297,324,962)	132,194,768
Sensitivity of variation (excluding IRS)	0.36	0.45	
Nominal amount of interest rate swaps	0		
Sensitivity of the IRS variation	0		
Sensitivity of variation (including IRS)	0.36	0.45	-0.10
Floating rate as a % total	81.53%	81.68%	
Fixed rate as a % total	18.47%	18.32%	
Net Portfolio's Sensitivity to 100bp change in interest rate			0.14%
POLICY LIMIT:			+/- 1.50

A change of 100 basis points in interest rates would have increased or decreased the Corporation's net economic value by US\$17,003, which represents a change of +/-1.31% of annualized net income and +/- 0.02% of equity as of March 31, 2018.

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

<u>March 31, 2018</u>	<u>1 to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 180 days</u>	<u>181 to 365 days</u>	<u>Over 365 days</u>	<u>Total</u>
<u>Assets:</u>							
Loans and investments, gross	91,840,580	76,966,759	98,307,293	55,658,505	2,268,569	44,586,675	369,628,381
<u>Liabilities:</u>							
Loans payable, gross	<u>24,623,266</u>	<u>31,083,333</u>	<u>133,142,857</u>	<u>27,604,625</u>	<u>22,136,365</u>	<u>11,366,434</u>	<u>249,956,880</u>
Net position	<u>67,217,314</u>	<u>45,883,426</u>	<u>(34,835,564)</u>	<u>28,053,880</u>	<u>(19,867,796)</u>	<u>33,220,241</u>	<u>119,671,501</u>

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

(d) *Operational risk*

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

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

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

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

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

(e) *Capital management*

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

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Tier 1 capital	<u>94,158,594</u>	<u>98,775,546</u>
Total capital	<u>94,158,594</u>	<u>98,775,546</u>

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Risk weight of 20%	2,523,905	6,071,390
Risk weight of 50%	47,743,443	22,158,873
Risk weight of 100%	<u>360,924,404</u>	<u>359,604,403</u>
Risk - weighted assets	<u>411,191,752</u>	<u>387,834,666</u>
Capital adequacy	<u>22.90%</u>	<u>25.47%</u>
Required capital adequacy (established by the Board)	<u>20.00%</u>	<u>20.00%</u>

(6) Furniture, Equipment and Improvements

Furniture, equipment and improvements are summarized as follows:

	March 31, 2018				
	Furniture and Equipment	Property Improvements	Computer Equipment	Project in Progress	Total
Cost:					
Balance at January 1, 2018	147,755	739,654	113,769	0	1,001,178
Additions	<u>0</u>	<u>0</u>	<u>8,062</u>	<u>0</u>	<u>8,062</u>
Balance at end of period	<u>147,755</u>	<u>739,654</u>	<u>121,831</u>	<u>0</u>	<u>1,009,240</u>
Accumulated depreciation:					
Balance at January 1, 2018	41,745	104,783	28,007	0	174,535
Expense of the period	<u>7,353</u>	<u>18,491</u>	<u>7,075</u>	<u>0</u>	<u>32,919</u>
Balance at end of period	<u>49,098</u>	<u>123,274</u>	<u>35,082</u>	<u>0</u>	<u>207,454</u>
Net balance	<u>98,657</u>	<u>616,380</u>	<u>86,749</u>	<u>0</u>	<u>801,786</u>

	December 31, 2017				
	Furniture and Equipment	Property Improvements	Computer Equipment	Project in Progress	Total
Cost:					
Balance at January 1, 2017	147,755	739,654	59,220	132,259	1,078,888
Additions	<u>0</u>	<u>0</u>	<u>54,549</u>	<u>0</u>	<u>54,549</u>
Reclassifications	<u>0</u>	<u>0</u>	<u>0</u>	<u>(132,259)</u>	<u>(132,259)</u>
Balance at end of year	<u>147,755</u>	<u>739,654</u>	<u>113,769</u>	<u>0</u>	<u>1,001,178</u>
Accumulated depreciation:					
Balance at January 1, 2017	12,331	30,819	8,837	0	51,987
Expense of the year	<u>29,414</u>	<u>73,964</u>	<u>19,170</u>	<u>0</u>	<u>122,548</u>
Balance at end of year	<u>41,745</u>	<u>104,783</u>	<u>28,007</u>	<u>0</u>	<u>174,535</u>
Net balance	<u>106,010</u>	<u>634,871</u>	<u>85,762</u>	<u>0</u>	<u>826,643</u>

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

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(7) Loans Payable

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

	<u>Maturity</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
<u>Foreign Financial Institutions</u>			
Corporación Andina de Fomento	2018	14,000,000	25,000,000
Central American Bank for Economic Integration	2018	3,731,100	7,289,150
Itau Corpbanca	2018	3,333,334	6,666,667
Opec Fund for International Development (OFID)	2018	1,153,848	2,307,694
Norwegian Investment Fund for Developing Countries	2018	0	25,000,000
Inter-American Development Bank	2019	14,973,504	22,371,128
Bancaribe Curacao Bank NV	2019	10,000,000	10,000,000
German Investment Corporation (KFW DEG)	2019	4,615,385	4,615,385
Corporación Andina de Fomento - Syndicate	2020	59,142,857	59,142,857
Entrepreneurial Development Bank (FMO)	2020	27,000,000	27,000,000
German Investment Corporation (KFW DEG)	2022	25,000,000	0
Global Climate Partnership Fund	2022	23,000,000	23,000,000
Opec Fund for International Development (OFID)	2022	10,909,091	12,272,727
Caribbean Development Bank	2024	13,639,161	14,207,343
<u>Local Financial Institutions</u>			
MMG Bank, Corp.	2018	10,000,000	10,000,000
Banco Pichincha Panamá, S. A.	2018	6,000,000	10,000,000
Banco Internacional de Costa Rica, S. A.	2018	0	16,608,457
Banco Internacional de Costa Rica, S. A.	2019	18,458,600	9,234,679
MMG Bank, Corp.	2019	5,000,000	0
		249,956,880	284,716,087
Deferred expense		(1,956,210)	(2,142,525)
Total		<u>248,000,670</u>	<u>282,573,562</u>

The effective interest rates on loans with financial entities range between 3.04% and 5.86% per annum (December 31, 2017: between 2.77% and 5.50%).

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 March 31, 2018 and December 31, 2017:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Loans payable outstanding	249,956,880	284,716,087
Undrawn balance of committed lines of credit	11,000,000	25,000,000
Undrawn balance of uncommitted lines of credit	50,810,300	45,867,714

See note 5.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.

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(8) Bonds

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

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

<u>Bonds</u>	<u>Nominal Interest Rate</u>	<u>Maturity Date</u>	<u>March 31, 2018 Carrying Amount</u>
Series A	5.00%	2021	10,000,000
Series B	5.50%	2023	3,699,000
			<u>13,699,000</u>

(9) Commercial Paper

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

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

<u>VCN</u>	<u>Nominal Interest Rate</u>	<u>Maturity Date</u>	<u>March 31, 2018 Carrying Amount</u>	<u>December 31, 2017 Carrying Amount</u>
Series A	3.50%	2018	5,000,000	5,000,000
Series B	3.65%	2018	8,620,000	0
			<u>13,620,000</u>	<u>5,000,000</u>

(10) Equity

Share capital

The Corporation's share capital is comprised of 54,000,001 shares of US\$1 par value, for a total of US\$54,000,001. Of that total, 14,082,203 are Class A preferred shares, and 39,917,798 are Class B common shares (December 31, 2017: 14,082,203 Class A preferred shares and 39,917,798 Class B common shares).

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The share capital is distributed as follows:

	March 31, 2018		December 31, 2017	
	Acquired Capital	Ownership Interest	Acquired Capital	Ownership Interest
Norwegian Investment Fund for Developing Countries	17,263,819	31.97%	17,263,819	31.97%
Banistmo, S. A.	6,122,697	11.34%	6,122,697	11.34%
Central American Bank for Economic Integration	6,122,697	11.34%	6,122,697	11.34%
Caixa Banco de Investimento, S. A.	6,122,697	11.34%	6,122,697	11.34%
International Finance Corporation	4,285,888	7.94%	4,285,888	7.94%
Caribbean Development Bank	3,673,618	6.80%	3,673,618	6.80%
Finnish Fund for Industrial Cooperation Ltd.	3,673,618	6.80%	3,673,618	6.80%
Itau Unibanco, S. A.	3,673,618	6.80%	3,673,618	6.80%
Banco Pichincha C. A.	3,061,349	5.67%	3,061,349	5.67%
	<u>54,000,001</u>		<u>54,000,001</u>	

Reserves

• *Legal reserve:*

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

• *Fair value reserve:*

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

(11) Basic Earnings Per Share

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

	March 31, 2018	March 31, 2017
Net income	<u>1,296,563</u>	<u>1,857,879</u>
Number of shares	<u>54,000,001</u>	<u>54,000,001</u>
Earnings per share	<u>0.02</u>	<u>0.03</u>

(12) Income Taxes

Panama

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

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

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

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

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

<u>Panama</u>	<u>March 31,</u> <u>2018</u>	<u>March 31,</u> <u>2017</u>
Net financial income before income tax	1,296,563	2,061,414
Foreign revenue, exempt and non-taxable, net of costs and expenses	<u>(1,296,563)</u>	<u>(1,916,552)</u>
Net taxable income	<u>0</u>	<u>144,862</u>
Income tax	<u>0</u>	<u>36,216</u>

United States of America (U.S.)

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

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

The provision for income taxes for 2016 was calculated by applying an estimate of the annual effective tax rate for the full fiscal year to income for the reporting period. A tax rate of 34% was used to calculate federal income taxes and a tax rate of 6% to calculate Virginia state tax for the year ended December 31, 2016.

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Our calculation of the Branch Profit Tax provision is determined under IRC 884(a) which treats a U.S. branch of a foreign corporation as if it were a U.S. subsidiary of a foreign corporation for purposes of taxing profit repatriations. As such, under IRC 884(a), earnings and profits of a branch of a foreign corporation are deemed remitted to its home office. The U.S. branch would be subject to a dividend withholding tax on payments to its foreign parent of 30% of profit repatriations. As of December 31, 2017, the Corporation did not have assets that qualify for the calculation of the Branch Profit Tax provision.

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

<u>U.S.</u>	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Net financial income before income tax	1,296,563	2,061,414
Foreign revenue, exempt and non-taxable, net of costs and expenses	<u>(1,296,563)</u>	<u>(1,620,639)</u>
Net taxable income per Virginia state tax	<u>0</u>	<u>440,775</u>
Current Virginia state tax expense, estimated	<u>0</u>	<u>26,447</u>
Net taxable income per Federal income tax	<u>0</u>	<u>414,328</u>
Current Federal income tax expense, estimated	<u>0</u>	<u>140,872</u>
Total U.S. income taxes	<u>0</u>	<u>167,319</u>
Total Panama and U.S. income taxes	<u>0</u>	<u>203,535</u>

The effective tax rate of the Corporation for the period ended March 31, 2018 was 0% (March 31, 2017: 9.87%). The Corporation has not recognized any deferred income taxes, as future taxable profit does not currently provide convincing evidence that those benefits will be fully or partially used.

(13) Financial assets and financial liabilities

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Investment securities	Available for sale	FVOCI	8,080,925	8,080,925
Loans receivable	Loans and receivables	Amortized cost	343,635,979	338,890,790
Total financial assets			351,716,904	346,971,715

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

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

	IAS 39 carrying amount December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying amount January 1, 2018
Financial assets				
Available for sale				
Investment securities				
Opening balance	8,080,925			
To FVOCI equity		0	0	
Closing balance				8,080,925
Total FVOCI	8,080,925	0	0	8,080,925
Amortized cost				
Loans receivable				
Opening balance	343,635,979			
Remeasurement		0	(4,745,189)	
Closing balance				338,890,790
Total amortized cost	343,635,979	0	(4,745,189)	338,890,790
Financial liabilities				
Amortized cost				
Loans payable and debt securities issued				
Opening balance	287,573,562			
From FVTPL		0	0	
Closing balance				287,573,562
Total amortized cost	287,573,562	0	0	287,573,562

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

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

As of March 31, 2018, the Corporation has not recorded any allowance for losses on cash and cash equivalents, investment securities, accrued interest and other receivables related to the implementation of IFRS 9.

(14) Fair Value of Financial Instruments

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

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

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

The Corporation uses widely recognized valuation models for determining the fair value of common and 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 are investment securities, with a carrying amount and fair value of US\$0, hierarchical Level 2 (December 31, 2017: US\$0, Level 2)

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

	March 31, 2018	
	<u>Carrying amount</u>	<u>Fair value Level 3</u>
Loans receivable	<u>361,547,456</u>	<u>412,734,969</u>
Loans payable	<u>249,956,880</u>	<u>258,631,048</u>

	December 31, 2017	
	<u>Carrying amount</u>	<u>Fair value Level 3</u>
Loans receivable	<u>343,635,979</u>	<u>399,162,781</u>
Loans payable	<u>282,573,562</u>	<u>292,305,117</u>

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

Valuation techniques and data inputs used in measuring financial instruments categorized a Level 2 and Level 3 in 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 OIS (Overnight Index Swap) and LIBOR rates zero coupon yield).

(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) 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 March 31, 2018, the Corporation has commitments and contingencies in the amount of US\$33,676,585 (December 31, 2017: US\$44,317,746), corresponding to credits pending disbursement to various entities.

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