

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

**Consolidated Interim Financial Statements**

(Unaudited)

September 30, 2019

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

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**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 September 30, 2019 consolidated interim financial statements of Corporación Interamericana para el Financiamiento de Infraestructura, S.A. and Subsidiaries ("the Corporation"), which comprises:

- Consolidated statement of financial position as at September 30, 2019;
- Consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2019.
- Consolidated statement of changes in equity for the nine-month period ended September 30, 2019;
- Consolidated statement of cash flows for the nine-month period ended September 30, 2019; and
- Notes to the consolidated interim financial statements.

Management is responsible for the preparation and presentation of this 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 this 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 September 30, 2019, and its financial performance for the three and nine-month periods then ended, and its cash flows for the six-month period then ended in accordance with IFRS including the requirements of IAS 34, "*Interim Financial Reporting*".

**KPMG**

Panama, Republic of Panama  
November 15, 2019

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

(Panama, Republic of Panama)

**Consolidated Statement of Financial Position**

September 30, 2019

(Expressed in US Dollars)

	<b>Note</b>	<b>September 30, 2019 (Unaudited)</b>	<b>December 31, 2018 (Audited)</b>
<b><u>Assets</u></b>			
Cash and cash equivalents	6	28,295,603	15,215,074
Investment securities	6	1,897,688	1,451,595
Loans receivable at amortized cost	6	385,060,580	354,494,289
Assets held-for-sale, net	6	1,621,448	1,423,461
Furniture, equipment and improvements, net	7, 15	2,650,753	727,548
Receivables from advisory and structuring services, net	6	1,982,076	5,010,647
Derivative assets held for risk management	6, 14	6,363,516	1,981,746
Other assets		2,848,921	2,042,368
<b>Total assets</b>		<b>430,720,585</b>	<b>382,346,728</b>
<b><u>Liabilities</u></b>			
At amortized cost:			
Loans	6, 8	183,363,782	148,347,209
Bonds	6, 9	124,847,034	101,208,384
Commercial paper	6, 10	23,366,000	33,193,000
Accrued interest payable		2,244,914	781,432
Derivative liabilities held for risk management	14	58,791	0
Lease liabilities	15	1,713,378	0
Other liabilities		1,591,162	1,140,128
<b>Total liabilities</b>		<b>337,185,061</b>	<b>284,670,153</b>
<b><u>Equity</u></b>			
Share capital	11	50,326,383	54,000,001
Additional paid-in capital		85,000	85,000
Retained earnings		43,124,141	43,591,574
<b>Total equity</b>		<b>93,535,524</b>	<b>97,676,575</b>
<b>Total liabilities and equity</b>		<b>430,720,585</b>	<b>382,346,728</b>
<b><u>Commitments and contingencies</u></b>			
Loans pending disbursement	16	44,845,831	46,563,788
Undrawn balance of credit facilities	6, 8	37,781,818	93,500,000
Notional amount of swaps	14	127,587,000	94,000,000

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

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

**Consolidated Statement of Comprehensive Income**

For the three and nine-month periods ended on September 30, 2019

(Expressed in US Dollars)

		<b>For the three months ended on:</b>		<b>For the nine months ended on:</b>	
		<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
		<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>Note</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Interest income:</b>					
Cash and cash equivalents		52,281	56,538	141,332	167,085
Investment securities		19,697	9,643	49,513	16,272
Loans receivable		8,295,531	7,472,428	24,338,948	24,766,610
Total interest income		<u>8,367,509</u>	<u>7,538,609</u>	<u>24,529,793</u>	<u>24,949,967</u>
<b>Interest expense:</b>					
Loans payable		(2,767,895)	(3,282,082)	(7,718,766)	(10,162,234)
Debt securities		(1,716,923)	(1,216,841)	(5,407,842)	(1,993,906)
Lease	15	(25,195)	0	(75,584)	0
Total interest expense		<u>(4,510,013)</u>	<u>(4,498,923)</u>	<u>(13,202,192)</u>	<u>(12,156,140)</u>
Net interest income		<u>3,857,496</u>	<u>3,039,686</u>	<u>11,327,601</u>	<u>12,793,827</u>
Other income:					
Advisory and structuring fees and other, net		1,468,213	1,257,676	2,823,181	2,281,353
Gain on derivative instruments, net	14	51,916	(16,131)	330,120	(16,131)
Total other income		<u>1,520,129</u>	<u>1,241,545</u>	<u>3,153,301</u>	<u>2,265,222</u>
<b>Operating income</b>		<u>5,377,625</u>	<u>4,281,231</u>	<u>14,480,902</u>	<u>15,059,049</u>
Provision for loan losses	6	(2,077,635)	(1,171,127)	(3,744,279)	(2,940,066)
Reversal of (impairment) loss on investment securities	6	0	14,597	0	138,376
Impairment loss on assets held-for-sale	6	0	0	(65,324)	(1,203,487)
Impairment loss on receivable		119,745	520,963	(38,250)	(250,000)
Depreciation and amortization expense	7	(131,629)	(33,718)	(357,641)	(99,598)
Personnel expenses		(1,434,232)	(1,708,086)	(4,258,980)	(4,499,861)
Other administrative expenses		(1,217,454)	(1,221,998)	(2,762,054)	(3,164,274)
<b>Net income before tax</b>		<u>636,420</u>	<u>681,862</u>	<u>3,254,374</u>	<u>3,040,139</u>
Income taxes		(46,972)	(173,446)	(280,845)	(319,056)
<b>Total comprehensive income for the period</b>		<u>589,448</u>	<u>508,416</u>	<u>2,973,529</u>	<u>2,721,083</u>
Basic earnings per share	11	<u>0.02</u>	<u>0.02</u>	<u>0.06</u>	<u>0.05</u>

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

**CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE  
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(Panama, Republic of Panama)

**Consolidated Statement of Changes in Equity**

For the nine-month period ended on September 30, 2019

(Expressed in US Dollars)

	<b>Share capital</b>	<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance at December 31, 2017 (Audited)</b>	54,000,001	85,000	44,690,545	98,775,546
Impact of adopting IFRS 9 at January 1, 2018	0	0	(4,745,189)	(4,745,189)
<b>Balance at January 1, 2018</b>	<u>54,000,001</u>	<u>85,000</u>	<u>39,945,356</u>	<u>94,030,357</u>
Net income for the period	0	0	2,721,083	2,721,083
Total comprehensive income for the period	0	0	2,721,083	2,721,083
<b>Transactions with owners of the Corporation</b>				
Dividends paid	0	0	(235,121)	(235,121)
Complementary tax, Panama	0	0	(4,278,929)	(4,278,929)
<b>Balance at September 30, 2018 (Unaudited)</b>	<u>54,000,001</u>	<u>85,000</u>	<u>38,152,389</u>	<u>92,237,390</u>
<b>Balance at December 31, 2018 (Audited)</b>	54,000,001	85,000	43,591,574	97,676,575
Net income for the period	0	0	2,973,529	2,973,529
Total comprehensive income for the period	54,000,001	85,000	46,565,103	100,650,104
<b>Transactions with owners of the Corporation</b>				
Complementary tax, Panama	0	0	(176,854)	(176,854)
Dividends paid	0	0	(3,264,108)	(3,264,108)
Share repurchase	(3,673,618)	0	0	(3,673,618)
<b>Balance at September 30, 2019 (Unaudited)</b>	<u>50,326,383</u>	<u>85,000</u>	<u>43,124,141</u>	<u>93,535,524</u>

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

**CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO DE  
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(Panama, Republic of Panama)

**Consolidated Statement of Cash Flows**

For the nine-month period ended on September 30, 2019

(Expressed in US Dollars)

	<u>Note</u>	<u>September 30, 2019 (Unaudited)</u>	<u>September 30, 2018 (Unaudited)</u>
<b>Cash flows from operating activities</b>			
Net income for the period		2,973,529	2,721,083
Gain on derivative instruments, net		(330,120)	0
Provision for loan losses	6	3,744,279	2,940,066
Reversal of loss on investment securities	6	0	(138,376)
Impairment loss on assets held-for-sale	6	65,324	1,203,487
Impairment loss on receivable		38,250	250,000
Depreciation and amortization expense	7	357,641	99,598
Net interest income		(11,327,601)	(12,793,827)
Income tax expense	12	280,845	319,056
		<u>(4,197,853)</u>	<u>(5,398,913)</u>
Changes in:			
Other assets		2,255,315	3,262,023
Other account payable		170,189	(1,128,378)
Loan collections		24,268,290	113,717,710
Loan disbursements		<u>(57,550,722)</u>	<u>(110,879,602)</u>
		(30,856,928)	4,971,753
Income tax paid		(408,393)	(379,216)
Interest received		23,499,562	24,561,170
Interest paid		<u>(11,738,710)</u>	<u>(10,366,478)</u>
		11,352,459	13,815,476
<b>Net cash flows from operating activities</b>		<u>(23,702,322)</u>	<u>13,388,316</u>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities		(1,594,000)	(1,050,000)
Proceeds from sales, redemption and amortization of investment securities		1,150,000	0
Acquisition of furniture, equipment and improvements	7	(435,559)	(13,262)
Proceeds from sale of computer equipment	7	416	1,718
<b>Net cash flows from investing activities</b>		<u>(879,143)</u>	<u>(1,061,544)</u>
<b>Cash flows from financing activities</b>			
Proceeds from loans payable		143,579,943	62,475,000
Repayment of loans payable		(108,563,370)	(203,643,094)
Proceeds from bonds		20,487,000	98,964,000
Repayment of bonds		(900,000)	0
Proceeds from commercial paper issued		18,387,000	29,810,000
Repayment of commercial paper		(28,214,000)	(5,000,000)
Share repurchase		(3,673,618)	0
Complementary tax paid		(176,854)	(235,121)
Dividends paid		<u>(3,264,107)</u>	<u>(4,278,929)</u>
<b>Net cash flows from financing activities</b>		<u>37,661,994</u>	<u>(21,908,144)</u>
Net decrease in cash and cash equivalents		13,080,529	(9,581,372)
Cash and cash equivalents at the beginning of the period		<u>15,215,074</u>	<u>30,356,948</u>
Cash and cash equivalents at the end of the period		<u><u>28,295,603</u></u>	<u><u>20,775,576</u></u>

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

**CORPORACIÓN INTERAMERICANA PARA EL FINANCIAMIENTO  
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(Panama, Republic of Panama)

**Notes to Consolidated Interim Financial Statements**

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

(Panama, Republic of Panama)

## Notes to Consolidated Interim Financial Statements

September 30, 2019

(Expressed in US Dollars)

### (1) Reporting Entity

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

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

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

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

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

Activity	Country of Incorporation	Controlling Ownership		
		2019	2018	
CIFI SEM, S. A.	Personnel Management	Panama	100%	100%
CIFI PANAMA, S. A.	Lending & Financing Structuring	Panama	100%	100%
CIFI LATAM, S. A.	Lending & Financing Structuring	Panama	100%	100%
CIFI AM, S.A.	Investment Funds Administration	Cayman Islands	100%	100%

The consolidated financial statements were authorized for issuance by the Corporation's Board of Directors on November 15, 2019.

### (2) Basis of Preparation

#### (a) Statement of compliance

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

#### (b) Basis of measurement

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

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

(Panama, Republic of Panama)

## Notes to Consolidated Interim Financial Statements

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### (2) Basis of Preparation, continued

#### (c) *Functional and presentation currency*

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

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

#### (d) *Use of estimates and judgments*

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

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

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

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

### (3) Significant Accounting Policies

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

#### (a) *Basis of Consolidation*

##### (i) *Subsidiaries*

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

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/inception date or until the effective disposal date, as applicable.

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**Notes to Consolidated Interim Financial Statements**

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

(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

**Financial assets**

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

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

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

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

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## Notes to Consolidated Interim Financial Statements

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### (3) Significant Accounting Policies, continued

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

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

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

All other financial assets are classified as measured at FVTPL.

#### *Business model assessment*

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Corporation's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Corporation's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

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### (3) Significant Accounting Policies, continued

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

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

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

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

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

#### **Financial Liabilities**

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

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

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

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

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

**(iii) Derecognition**

A financial asset is derecognized when the Corporation loses control over the contractual rights that comprise the asset. This occurs when the rights are realized, expire, or are surrendered. The Corporation derecognises a financial liability when settled or when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid is recognised in profit or loss.

**(iv) Modifications to financial assets**

**Financial assets**

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

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

**(v) Fair value measurement**

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

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

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

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

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

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

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

(vi) Identification and measurement of impairment

**Financial assets**

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

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

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

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

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### (3) Significant Accounting Policies, continued

- Lifetime ECL credit impaired: The Corporation recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a probability of default (PD) of 100% via the recoverable cash flow for the asset, for those financial assets that are credit-impaired. The treatment of loans in this stage remains substantially the same as the treatment of impaired loans under IAS 39 except for homogeneous portfolios.
- Financial assets that are credit-impaired upon recognition are categorized within this stage with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these purchased or originated credit-impaired (POCI) assets is discussed further below.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted effective interest rate. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

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

#### (e) *Derivatives held for risk management purposes and hedge accounting*

Management uses derivative financial instruments as part of its operations. Those instruments are recognized at fair value in the consolidated statement of financial position.

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

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

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

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

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

*(f) Investment securities*

The investment securities in the consolidated statement of financial position includes:

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

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

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

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

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

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.

*(g) Loans receivable*

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

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

*(h) Allowance for loan losses*

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 and financial guarantees.

No impairment loss is recognized on equity investments.

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

- Debt investment securities that are determined to have low credit risk at the reporting date
- 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.

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

***Measurement of ECL***

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls.
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Corporation if the commitment is drawn down and the cash flows that the Corporation expects to receive
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Corporation expects to recover.

***Restructured financial assets***

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

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

***Credit-impaired financial assets***

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

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

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

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### (3) Significant Accounting Policies, continued

- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization
- The disappearance of an active market for a security because of financial difficulties.

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

#### **Write-offs**

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

#### *(i) Assets held for sale*

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

#### *(j) Furniture, equipment and improvements*

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

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

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

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

Improvements	5 years
Furniture and equipment	4-5 years

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

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

*(k) Liabilities*

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

*(l) Provisions*

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

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

*(m) Income tax*

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

Deferred income tax represents the amount of income tax payable and/or receivable in future years resulting from temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. These temporary differences are expected to be reversed in future years. If it is determined that the deferred tax would not be realized in future years, the deferred tax will be totally or partially reduced. The Corporation has not recognized any deferred tax assets or liabilities at September 30, 2019.

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### (3) Significant Accounting Policies, continued

#### (n) *Income and expense recognition*

##### (i) Interest income and expense

###### Effective interest rate

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

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

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

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

###### Amortized cost and gross carrying amount

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

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

###### Calculation of interest income and expense

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

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

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

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

(ii) Fee and commission income and expenses

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

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

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

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

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

(o) *Net income from other financial instruments at fair value through profit or loss*

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

(p) *Basic earnings per share*

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

(q) *Segment Information*

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

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

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

*(r) Employee benefits*

*(i) Short-term employee benefits*

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

*(ii) Other long-term employee benefits*

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

*(s) Leases*

The Corporation's has initially adopted IFRS 16 *Leases* from January 1, 2019.

The Corporation has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 15.

**Policy applicable from January 1, 2019**

Previously, the Corporation determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Corporation assesses whether a contract is or contains a lease based on the definition of a lease.

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

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Corporation has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

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

- The Corporation has the right to direct the use of the asset. The Corporation has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Corporation has the right to direct the use of the asset if either:
- The Corporation has the right to operate the asset; or
- The Corporation designed the asset in a way that predetermines how and for what purpose it will be used.

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

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

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

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

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

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

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and

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

- The exercise price under a purchase option that the Corporation is reasonably certain to exercise, lease payments in an optional renewal period if the Corporation is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Corporation is reasonably certain not to terminate early.

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

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

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

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

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

**Policy applicable before January 1, 2019**

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

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

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

**Under IAS 17**

In the comparative period, as a lessee the Corporation classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Corporation's consolidated statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

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

For the period ended September 30, 2019 the Corporation entered into transactions with parties that are considered, to be related.

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

		<u>September 30, 2019</u>			
<u>Type of entity</u>	<u>Relationship</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>0</u>	<u>15,229,943</u>	<u>0</u>	<u>674,307</u>
		<u>December 31, 2018</u>		<u>September 30, 2018</u>	
<u>Type of entity</u>	<u>Relationship</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>0</u>	<u>16,934,489</u>	<u>0</u>	<u>709,489</u>

The Corporation has access to USD\$5,000,000 (December 31, 2018: US\$5,000,000) of undisbursed committed and uncommitted lines of credit with related parties, in addition to other credit facilities (see note 8).

Members of the Board of Directors have received compensation of US\$78,783 (September 30, 2018: US\$62,646) for attending meetings during the period.

**(5) Employee Benefits**

For the period ended September 30, 2019 personnel expenses include salaries and benefits paid to key executive officers for US\$717,074 (September 30, 2018: US\$822,553).

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

(Panama, Republic of Panama)

## Notes to Consolidated Interim Financial Statements

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### (5) Employee Benefits, continued

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, 2018: 3%) of each employee's annual base salary. The Corporation makes its contributions to an independent fund manager and expenses those contributions as incurred. The Corporation has no future commitment to manage the funds contributed.

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

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

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

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

As of September 30, 2019, based on 2018 performance metrics and evaluation of the potential award value under the Plan, the annual pro-rata portion of the Option accumulated for this benefit was US\$158,116 (December 31, 2018: US\$ 158,116).

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

### (6) Financial Risk Management

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

#### *Risk management framework*

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

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## **Notes to Consolidated Interim Financial Statements**

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

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

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

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

The Credit Committee, majority comprised of senior management, reviews, approves and oversees the lending program of the Corporation. Their duties and responsibilities are to: review and approve loan transactions (including refinancing, rescheduling and restructuring transactions) within the limits established by the Board, including but not limited to Corporation's credit and lending policies; review and approve material waivers and amendments to a credit (changes in spread, amortization schedule, tenor and/or 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.

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## Notes to Consolidated Interim Financial Statements

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### (6) Financial Risk Management, continued

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

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

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

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

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.

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**Notes to Consolidated Interim Financial Statements**

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

- 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 September 30, 2019, the concentrations of credit risk by sectors and countries are within the limits established by the Corporation. There are no significant concentrations of credit risk by economic unit, sector, or country. The maximum exposure to credit risk is represented by the nominal amount of each financial asset.

Balances of loans receivable and investment securities are as follows:

<u>Loans and investment securities</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Investment securities	1,894,000	1,450,000
Accrued interest	<u>3,688</u>	<u>1,595</u>
Investment securities at amortized cost	<u>1,897,688</u>	<u>1,451,595</u>
Loans receivable	398,749,244	365,468,318
Accrued interest	6,649,562	5,621,425
Allowance for loan losses	(18,741,439)	(14,997,160)
Deferred income	<u>(1,655,578)</u>	<u>(1,598,294)</u>
	385,001,789	354,494,289
More: re-measurement of hedged item	58,791	0
Loans receivable at amortized cost	<u>385,060,580</u>	<u>354,494,289</u>
Total investments and loans (par value)	<u>407,355,285</u>	<u>372,541,338</u>
Total investments and loans, carrying value	<u>386,958,268</u>	<u>355,945,884</u>

The loan portfolio includes the financing of project bonds totaling US\$2,088,676 (December 31, 2018: US\$2,088,676).

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**Notes to Consolidated Interim Financial Statements**

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

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

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

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

The average loan portfolio risk rating is BB- as of September 30, 2019 (December 31, 2018: average loan portfolio risk rating was B+) based on the Corporation's standards, which are not necessarily comparable to international credit rating standards.

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**Notes to Consolidated Interim Financial Statements**

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

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

	<b>September 30, 2019</b>			
	<b>12-month ECL</b>	<b>Lifetime ECL, not credit impaired</b>	<b>Lifetime ECL, credit impaired</b>	<b>Total</b>
<b>Loans and advances at amortized cost</b>				
AAA / A-	0	0	0	0
BBB + / BBB-	46,973,959	0	0	46,973,959
BB+ / BB-	131,973,878	5,200,000	0	137,173,878
B+ / B-	132,487,136	23,567,262	0	156,054,398
<= CCC+	<u>13,125,000</u>	<u>10,900,000</u>	<u>34,522,009</u>	<u>58,547,009</u>
Total gross amount	324,559,973	39,667,262	34,522,009	398,749,244
Accrued interest	4,590,634	853,390	1,205,538	6,649,562
Loss allowance	(1,590,924)	(4,953,178)	(12,197,337)	(18,741,439)
Deferred income	<u>(1,655,578)</u>	<u>0</u>	<u>0</u>	<u>(1,655,578)</u>
	325,904,105	35,567,474	23,530,210	385,001,789
More: re-measurement hedge	58,791	0	0	58,791
Net carrying amount (*)	<u>325,962,896</u>	<u>35,567,474</u>	<u>23,530,210</u>	<u>385,060,580</u>
<b>Investment securities at amortized cost</b>				
AAA / A-	0	0	0	0
BBB + / BBB-	0	0	0	0
BB+ / BB-	1,894,000	0	0	1,894,000
B+ / B-	0	0	0	0
<= CCC+	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total gross amount	1,894,000	0	0	1,894,000
Accrued interest	<u>3,688</u>	<u>0</u>	<u>0</u>	<u>3,688</u>
Net carrying amount	<u>1,897,688</u>	<u>0</u>	<u>0</u>	<u>1,897,688</u>
<b>December 31, 2018</b>				
	<b>12-month ECL</b>	<b>Lifetime ECL, not credit impaired</b>	<b>Lifetime ECL, credit impaired</b>	<b>Total</b>
<b>Loans receivable at amortized cost</b>				
AAA / A-	10,866,426	0	0	10,866,426
BBB + / BBB-	18,261,592	0	0	18,261,592
BB+ / BB-	106,900,647	0	0	106,900,647
B+ / B-	174,629,598	2,088,676	0	176,718,274
<= CCC+	<u>0</u>	<u>31,025,000</u>	<u>21,696,379</u>	<u>52,721,379</u>
Total gross amount	310,658,263	33,113,676	21,696,379	365,468,318
Accrued interest	4,382,183	370,642	868,600	5,621,425
Loss allowance	(1,872,379)	(2,275,396)	(10,849,385)	(14,997,160)
Deferred income	<u>(1,598,294)</u>	<u>0</u>	<u>0</u>	<u>(1,598,294)</u>
Net carrying amount	<u>311,569,773</u>	<u>31,208,922</u>	<u>11,715,594</u>	<u>354,494,289</u>
<b>Investment securities at amortized cost</b>				
AAA / A-	0	0	0	0
BBB + / BBB-	203,000	0	0	203,000
BB+ / BB-	1,247,000	0	0	1,247,000
B+ / B-	0	0	0	0
<= CCC+	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total gross amount	1,450,000	0	0	1,450,000
Accrued interest	<u>1,595</u>	<u>0</u>	<u>0</u>	<u>1,595</u>
Net carrying amount	<u>1,451,595</u>	<u>0</u>	<u>0</u>	<u>1,451,595</u>

As of September 30, 2019, the Corporation has past due loans for US\$34,522,009 (December 31, 2018: US\$21,696,379).

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

To secure some of its loans payable, at September 30, 2019 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 19.08% (December 31, 2018: 12.38%) of the total assets.

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

	<b>September 30, 2019</b>			<b>Total</b>
	<b>12-month ECL</b>	<b>Lifetime ECL, not credit impaired</b>	<b>Lifetime ECL, credit impaired</b>	
<b>Loans and advances at amortized cost</b>				
Balance at January 1	1,872,379	2,275,396	10,849,385	14,997,160
Transfer to lifetime ECL not credit impaired	41,311	(41,311)	0	0
Transfer to lifetime ECL credit impaired	(264,254)	0	264,254	0
Net remeasurement of loss allowance	(245,034)	2,719,093	1,083,698	3,557,757
New financial assets originated	<u>186,522</u>	<u>0</u>	<u>0</u>	<u>186,522</u>
Balance at September 30	<u>1,590,924</u>	<u>4,953,178</u>	<u>12,197,337</u>	<u>18,741,439</u>
	<b>December 31, 2018</b>			
	<b>12-month ECL</b>	<b>Lifetime ECL, not credit impaired</b>	<b>Lifetime ECL, credit impaired</b>	<b>Total</b>
<b>Loans and advances at amortized cost</b>				
Balance at January 1	1,408,782	1,109,154	9,334,553	11,852,489
Transfer to 12-month ECL	14,581	(14,581)	0	0
Transfer to lifetime ECL not credit-impaired	(223,621)	223,621	0	0
Transfer to lifetime ECL credit-impaired	(41,751)	(226,726)	268,477	0
Net remeasurement of loss allowance	(124,318)	1,183,928	1,246,355	2,305,965
New financial assets originated	<u>838,706</u>	<u>0</u>	<u>0</u>	<u>838,706</u>
Balance at December 31	<u>1,872,379</u>	<u>2,275,396</u>	<u>10,849,385</u>	<u>14,997,160</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% (December 31, 2018: 99%) as follows:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Mortgage on fixed assets	149,045,099	140,872,279
Assets held in trust	185,532,527	150,101,773
Pledge on movable assets	33,192,715	40,834,481
Corporate guarantor	30,021,538	32,064,180
Unsecured	<u>957,365</u>	<u>1,595,605</u>
	<u>398,749,244</u>	<u>365,468,318</u>

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

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

Loans and investment securities earn interest at rates ranging between 3.50% and 11.75% per annum (December 31, 2018: 3.09% and 12.16%).

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

<u>Tier</u>	<u>CIFI Credit</u>	<u>Unsecured</u>	<u>Secured</u>
	<u>Rating</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>September 30, 2019</u>		<u>% of total equity</u> <u>December 31, 2018</u>	
	<u>Number of</u> <u>exposures</u>	<u>U.S. dollars</u>	<u>Number of</u> <u>Exposures</u>	<u>U.S. dollars</u>
0 to 4.99%	18	40,453,606	17	39,017,205
5 to 9.99%	17	114,227,657	19	128,822,342
10 to 14.99%	17	197,123,449	14	166,628,771
15 to 18%	<u>3</u>	<u>46,944,532</u>	<u>2</u>	<u>31,000,000</u>
	<u>55</u>	<u>398,749,244</u>	<u>52</u>	<u>365,468,318</u>

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

- Country risk: The Corporation uses a series of classifications by country risk and gross domestic product to place countries in the following risk categories: Prime, Normal, Fair, and Restricted. Under this system, country size is less relevant for high-risk countries and more significant for low-risk countries. Each category has a maximum credit limit on the total value of the corresponding loan portfolio. As of September 30, 2019, the Corporation complied with country risk exposure limits. However, for Argentina the Board of Directors has approved a temporary waiver until September 30, 2020.

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

	<b>September 30, <u>2019</u></b>	<b>December 31, <u>2018</u></b>
Argentina	68,565,340	64,232,855
Panama	50,943,973	30,119,191
Brazil	45,859,683	47,627,625
Ecuador	37,115,268	35,538,036
Colombia	37,050,243	35,013,352
Peru	31,200,000	15,000,000
Honduras	25,445,583	26,813,891
Salvador	13,881,356	10,627,119
Nicaragua	13,618,001	15,059,924
Belize	13,125,000	13,125,000
Guatemala	12,920,000	12,920,000
Jamaica	12,711,895	12,098,398
Chile	11,709,698	11,252,323
Uruguay	10,209,685	10,866,426
Bolivia	9,923,077	0
Paraguay	6,364,442	6,559,998
Mexico	<u>0</u>	<u>20,064,180</u>
Gross loans and investment portfolio	400,643,244	366,918,318
Accrued Interest	<u>6,653,250</u>	<u>5,623,020</u>
	407,296,494	372,541,338
More: re-measurement of hedged item	<u>58,791</u>	<u>0</u>
Total	<u><u>407,355,285</u></u>	<u><u>372,541,338</u></u>

- Sector risk: The Corporation limits its concentration in any sector to 50% of the corresponding country risk limit. As of September 30, 2019, 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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**(6) Financial Risk Management, continued**

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

	<b>September 30,</b> <b><u>2019</u></b>	<b>December 31,</b> <b><u>2018</u></b>
Solar Power	87,640,816	86,949,617
Airports and Seaports	62,399,242	46,800,206
Construction & Engineering	39,309,125	37,347,365
Hydro Power	32,810,713	29,444,757
Telecommunications	31,923,077	22,000,000
Gas & Oil	30,393,048	30,479,937
Roads, Railroads and Other	29,257,508	26,711,592
Wind Power	26,020,676	28,185,430
Co-generation (Biomass)	20,316,021	18,000,312
Infrastructure Conglomerates	14,636,000	12,920,000
Water & Sanitation	13,009,271	14,052,083
Logical Center and Other	6,374,636	7,000,000
Geothermal	4,464,435	4,938,343
Thermo Power	<u>2,088,676</u>	<u>2,088,676</u>
Gross loans and investment portfolio	400,643,244	366,918,318
Accrued Interest	<u>6,653,250</u>	<u>5,623,020</u>
	407,296,494	372,541,338
More: re-measurement of hedged item	<u>58,791</u>	<u>0</u>
Total	<u><u>407,355,285</u></u>	<u><u>372,541,338</u></u>

Due to the Argentina's credit rating downgrade, the Oil & Gas sector limit, set in CIFI's credit policy was in no compliance. The Board of Directors approved a temporary waiver of this sector limit until June 2020.

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

During the period ended September 30, 2019, write-downs of US\$65,324 on the asset held-for-sale were made to lower its carrying amount to fair value less costs to sell (September 30, 2018: US\$1,203,486).

The carrying value of the asset held for sale as of September 30, 2019 is US\$1,621,448 (December 31, 2018: US\$1,423,461). As of September 30, 2019, the asset is being actively traded.

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

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

	<b>September 30, <u>2019</u></b>	<b>December 31, <u>2018</u></b>
Balance at beginning of the period/year	(6,680,221)	(5,344,116)
Allowance for the period/year	<u>(65,324)</u>	<u>(1,336,105)</u>
Balance at end of the period/year	<u>(6,745,545)</u>	<u>(6,680,221)</u>

In addition, commissions receivable from corporate services rendered to third parties, amounting to US\$1,982,076 (December 31, 2018: US\$5,010,647), which are presented as receivable from advisory and structuring services, are classified as performing receivables. No ECL allowance was recorded on those receivables, since they are short – term receivables and ECL are deemed as immaterial.

**(b) Liquidity risk**

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

*Management of liquidity risk*

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

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

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

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

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

As of September 30, 2019, the Corporation had US\$28,295,603 (December 31, 2018: US\$15,215,074) in cash and cash equivalents and maintains undisbursed and available balances of committed credit facilities with financial institutions for US\$13,000,000 (December 31, 2018: US\$25,000,000) with tenors at 2020 (December 31, 2018: tenors between 2018 and 2019). Additionally, the Corporation maintains undisbursed and available balances of uncommitted short-term revolving credit facilities with financial institutions for US\$24,781,818 (December 31, 2018: US\$68,500,000). (See note 8).

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

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

<u>September 30, 2019</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>
<b>Assets</b>							
Cash and cash equivalents	28,295,603	0	0	0	0	0	28,295,603
Investment securities	301,441	1,314	203,904	47,029	1,344,000	0	1,897,688
Loans receivable at amortized cost	17,277,376	6,019,918	12,006,791	(1,452,452)	18,756,295	332,452,652	385,060,580
Assets held-for-sale	0	0	0	0	0	1,621,448	1,621,448
Receivables from advisory and structuring services	788,831	35,320	252,835	905,090	0	0	1,982,076
Derivative assets	0	0	0	236,386	1,196,561	4,930,569	6,363,516
<b>Total</b>	<u>46,663,251</u>	<u>6,056,552</u>	<u>12,463,530</u>	<u>(263,947)</u>	<u>21,296,856</u>	<u>339,004,669</u>	<u>425,220,911</u>
<b>Liabilities</b>							
Loans payable, gross	1,722,028	3,125,000	31,679,376	11,476,333	41,102,550	94,258,495	183,363,782
Bonds	0	0	0	300,000	600,000	123,947,034	124,847,034
Commercial paper	(3,000,000)	9,000,000	1,992,000	0	14,374,000	1,000,000	23,366,000
Accrued interest payable	160,902	488,989	1,164,907	430,116	0	0	2,244,914
<b>Total</b>	<u>(1,117,070)</u>	<u>12,613,989</u>	<u>34,836,283</u>	<u>12,206,449</u>	<u>56,076,550</u>	<u>219,205,529</u>	<u>333,821,730</u>
<u>December 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>
<b>Assets</b>							
Cash and cash equivalents	15,215,074	0	0	0	0	0	15,215,074
Investments securities	967	47,000	453,628	500,000	450,000	0	1,451,595
Loans receivable at amortized cost	3,224,848	3,172,134	(1,017,047)	(4,046,230)	30,044,329	323,116,255	354,494,289
Assets held-for-sale	0	0	0	0	0	1,423,461	1,423,461
Derivative assets	0	0	144,753	0	243,997	1,592,996	1,981,746
Receivables from advisory and structuring services	871,481	1,009,549	2,514,020	615,597	0	0	5,010,647
<b>Total</b>	<u>19,312,370</u>	<u>4,228,683</u>	<u>2,095,354</u>	<u>(2,930,633)</u>	<u>30,738,326</u>	<u>326,132,712</u>	<u>379,576,812</u>
<b>Liabilities</b>							
Loans payable, gross	568,182	0	1,363,636	(7,795,829)	70,135,989	85,444,229	149,716,207
Bonds	0	0	432,090	0	1,122,653	99,653,641	101,208,384
Commercial paper	0	0	0	13,000,000	20,193,000	0	33,193,000
Accrued interest payable	147,685	96,517	157,751	379,479	0	0	781,432
<b>Total</b>	<u>715,867</u>	<u>96,517</u>	<u>1,953,477</u>	<u>5,583,650</u>	<u>91,451,642</u>	<u>185,097,870</u>	<u>284,899,023</u>

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

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

		Gross Nominal inflow/ (outflow)	Less than 1 month	Over 1 to 3 months	Over 3 months to 1 year	Over 1 to 5 years	Over 5 years
<b>September 30, 2019</b>	<b>Carrying amount</b>						
Non-derivative liabilities							
Loans payable	183,363,782	(200,235,365)	(1,932,970)	(38,116,480)	(58,963,656)	(101,222,259)	0
Bonds	124,847,034	(150,431,612)	0	0	(6,099,549)	(102,527,346)	(41,804,717)
Commercial paper	23,366,000	(23,759,508)	(2,005,778)	(11,041,462)	(10,712,268)	0	0
Unrecognized loan commitments	<u>0</u>	<u>(37,781,818)</u>	<u>(37,781,818)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>331,576,816</u>	<u>(412,208,303)</u>	<u>(41,720,566)</u>	<u>(49,157,942)</u>	<u>(75,775,473)</u>	<u>(203,749,605)</u>	<u>(41,804,717)</u>
Non – derivate assets							
Investments securities	1,897,688	1,940,970	302,824	214,762	1,423,384	0	0
Loans receivable at amortized cost	<u>385,060,580</u>	<u>486,424,836</u>	<u>5,178,186</u>	<u>28,053,207</u>	<u>57,349,991</u>	<u>225,645,142</u>	<u>170,198,310</u>
Total	<u>386,958,268</u>	<u>488,365,806</u>	<u>5,481,010</u>	<u>28,267,969</u>	<u>58,773,375</u>	<u>225,645,142</u>	<u>170,198,310</u>
<b>December 31, 2018</b>	<b>Carrying amount</b>	<b>Gross Nominal inflow/ (outflow)</b>	<b>Less than 1 month</b>	<b>Over 1 to 3 months</b>	<b>Over 3 months to 1 year</b>	<b>Over 1 to 5 years</b>	<b>Over 5 years</b>
Non-derivative liabilities							
Loans payable	148,347,209	(157,498,390)	(755,794)	(1,997,945)	(65,516,266)	(88,657,532)	(570,852)
Bonds	101,208,384	(126,272,764)	0	(1,892,162)	(4,077,453)	(43,118,701)	(77,184,449)
Commercial paper	33,193,000	(34,054,332)	0	(331,957)	(33,722,375)	0	0
Unrecognized loan commitments	<u>0</u>	<u>(93,500,000)</u>	<u>(93,500,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>282,748,593</u>	<u>(411,325,486)</u>	<u>(94,255,794)</u>	<u>(4,222,064)</u>	<u>(103,316,094)</u>	<u>(131,776,233)</u>	<u>(77,755,301)</u>
Non- derivate assets							
Investments securities	1,451,595	1,476,361	2,542	511,059	962,760	0	0
Loans receivable at amortized costs	<u>354,494,289</u>	<u>546,762,589</u>	<u>9,507,788</u>	<u>9,920,598</u>	<u>68,523,256</u>	<u>255,842,460</u>	<u>202,968,487</u>
Total	<u>355,945,884</u>	<u>548,238,950</u>	<u>9,510,330</u>	<u>10,431,657</u>	<u>69,486,016</u>	<u>255,842,460</u>	<u>202,968,487</u>

**(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.

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

As of September 30, 2019, all of the Corporation's assets and liabilities are denominated in U.S. dollars. Accordingly, no foreign currency risk is anticipated.

*Interest rate risk*

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

Most of the Corporation's interest-earning assets and interest-bearing liabilities are re-priced at least quarterly. As of September 30, 2019, 15% (December 31, 2018:15%) of interest-earning assets and 6% (December 31, 2018: 13%) of interest-bearing liabilities net of swaps are set to re-price after six months.

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

<u>September 30, 2019</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
Present Value	438,789,230	(342,084,371)	96,704,859
Duration (excluding interest rate swap)	0.47	0.31	
Duration (including interest rate swap)	0.47	0.31	0.17
Floating rate as a % total	83.06%	52.01%	
Fixed rate as a % total	16.94%	47.99%	
Net Portfolio's Sensitivity to 100bp change in interest rate			1.06%
POLICY LIMIT:			+/- 1.50
<u>December 31, 2018</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
Present Value	411,613,325	(283,152,637)	128,460,687
Duration (excluding interest rate swap)	0.79	0.44	
Duration (including interest rate swap)	0.79	0.44	0.35
Floating rate as a % total	81.85%	45.95%	
Fixed rate as a % total	18.15%	54.05%	
Net Portfolio's Sensitivity to 100bp change in interest rate			1.55%
POLICY LIMIT:			+/- 1.50

A change of 100 basis points in interest rates would have increased or decreased the Corporation's net economic value by US\$1,023,185 or 1.09%.

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

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

<b>September 30, 2019</b>	<b>1 to 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>91 to 180 days</b>	<b>181 to 365 days</b>	<b>Over 365 days</b>	<b>Total</b>
<i>Assets:</i>							
Loans and investments, gross	72,004,507	125,522,429	88,054,650	54,566,830	5,825,945	54,901,200	400,875,561
<i>Liabilities:</i>							
Loans, gross	<u>11,722,028</u>	<u>21,875,000</u>	<u>84,789,610</u>	<u>57,386,364</u>	<u>1,136,364</u>	<u>7,957,216</u>	<u>184,866,582</u>
Net position	<u>60,282,479</u>	<u>103,647,429</u>	<u>3,265,040</u>	<u>(2,819,534)</u>	<u>4,689,581</u>	<u>46,943,984</u>	<u>216,008,979</u>
<b>December 31, 2018</b>	<b>1 to 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>91 to 180 days</b>	<b>181 to 365 days</b>	<b>Over 365 days</b>	<b>Total</b>
<i>Assets:</i>							
Loans and investments, gross	57,158,794	86,498,109	89,256,422	77,266,507	4,721,071	52,017,415	366,918,318
<i>Liabilities:</i>							
Loans, gross	<u>9,068,182</u>	<u>10,000,000</u>	<u>14,545,455</u>	<u>100,304,446</u>	<u>6,136,364</u>	<u>9,661,760</u>	<u>149,716,207</u>
Net position	<u>48,090,612</u>	<u>76,498,109</u>	<u>74,710,967</u>	<u>(23,037,939)</u>	<u>(1,415,293)</u>	<u>42,355,655</u>	<u>217,202,111</u>

*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.

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

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

*(d) Capital management*

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

	<b>September 30, <u>2019</u></b>	<b>December 31, <u>2018</u></b>
Tier 1 capital	<u>93,535,524</u>	<u>97,676,575</u>
Total capital	<u>93,535,524</u>	<u>97,676,575</u>
Risk weight of 50%	23,371,760	101,500
Risk weight of 100%	317,846,977	370,019,878
Risk weight of 150%	85,688,741	34,679,761
Risk weight of 250%	16,956,318	0
Risk weight of 400%	<u>6,485,792</u>	<u>0</u>
Subtotal for Credit Risk	450,349,588	404,801,139
Concentration	197,416,721	201,556,636
Operational Risk	<u>74,271,961</u>	<u>74,271,961</u>
Risk - weighted assets	<u>722,038,270</u>	<u>680,629,736</u>
Capital adequacy	<u>12.95%</u>	<u>14.35%</u>
Required capital adequacy (as established by the Board)	<u>12.50%</u>	<u>12.50%</u>

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**(7) Furniture, Equipment and Improvements**

Furniture, equipment and improvements are summarized as follows:

	<u>September 30, 2019</u>				
	<u>Furniture and Equipment</u>	<u>Property Improvements</u>	<u>Computer Equipment</u>	<u>Rights of Use-Assets<sup>(1)</sup></u>	<u>Total</u>
<b>Cost:</b>					
Balance at January 1, 2019	147,755	739,654	146,543	0	1,033,952
Additions/Adopting IFRS 16	0	380,352	55,207	1,832,332	2,267,891
Sale	<u>0</u>	<u>0</u>	<u>(1,994)</u>	<u>0</u>	<u>(1,994)</u>
<b>Balance at end of period</b>	<u>147,755</u>	<u>1,120,006</u>	<u>199,756</u>	<u>1,832,332</u>	<u>3,299,849</u>
<b>Accumulated depreciation:</b>					
Balance at January 1, 2019	71,159	178,747	56,498	0	306,404
Expense of the period	22,060	104,403	46,025	171,782	344,270
Sale	<u>0</u>	<u>0</u>	<u>(1,578)</u>	<u>0</u>	<u>(1,578)</u>
<b>Balance at end of period</b>	<u>93,219</u>	<u>283,150</u>	<u>100,945</u>	<u>171,782</u>	<u>649,096</u>
<b>Net balance</b>	<u>54,536</u>	<u>836,856</u>	<u>98,811</u>	<u>1,660,550</u>	<u>2,650,753</u>

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

	<u>December 31, 2018</u>				
	<u>Furniture and Equipment</u>	<u>Property Improvements</u>	<u>Computer Equipment</u>	<u>Rights of Use-Assets</u>	<u>Total</u>
<b>Cost:</b>					
Balance at January 1, 2018	147,755	739,654	113,769	0	1,001,178
Additions	0	0	36,360	0	36,360
Sale	<u>0</u>	<u>0</u>	<u>(3,586)</u>	<u>0</u>	<u>(3,586)</u>
<b>Balance at end of year</b>	<u>147,755</u>	<u>739,654</u>	<u>146,543</u>	<u>0</u>	<u>1,033,952</u>
<b>Accumulated depreciation:</b>					
Balance at January 1, 2018	41,745	104,783	28,007	0	174,535
Expense of the year	29,414	73,964	30,359	0	133,737
Sale	<u>0</u>	<u>0</u>	<u>(1,868)</u>	<u>0</u>	<u>(1,868)</u>
<b>Balance at end of year</b>	<u>71,159</u>	<u>178,747</u>	<u>56,498</u>	<u>0</u>	<u>306,404</u>
<b>Net balance</b>	<u>76,596</u>	<u>560,907</u>	<u>90,045</u>	<u>0</u>	<u>727,548</u>

The Corporation has an intangible asset recorded as other assets for an amount of US\$90,881, that generated an amortization of US\$13,371 during the period ended on September 30, 2019.

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**(8) Loans Payable**

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

	<u>Maturity</u>	<u>September 30,</u> <u>2019</u>	<u>December 31</u> <u>2018</u>
<b><u>Foreign Financial Institutions</u></b>			
German Investment Corporation (KFW DEG)	2019	1,153,846	2,307,692
Bancaribe Curacao Bank NV	2020	0	10,000,000
Occidental Bank (Barbados) Ltd.	2020	5,000,000	5,000,000
Corporación Andina de Fomento	2020	20,000,000	0
Corporación Andina de Fomento - Syndicate	2020	29,571,429	39,428,571
Opec Fund for International Development (OFID)	2022	6,818,182	9,545,455
German Investment Corporation (KFW DEG)	2022	21,875,000	25,000,000
Global Climate Partnership Fund	2022	26,000,000	23,000,000
International Finance Bank (IFB)	2023	25,000,000	0
Caribbean Development Bank	2024	10,229,943	11,934,489
<b><u>Local Financial Institutions</u></b>			
Banco Internacional de Costa Rica, S. A.	2019	10,000,000	8,500,000
MMG Bank, Corp.	2020	10,000,000	10,000,000
Banco Pichincha Panamá, S. A.	2020	5,000,000	5,000,000
Banco Internacional de Costa Rica, S. A.	2021	<u>14,218,182</u>	<u>0</u>
		184,866,582	149,716,207
Deferred costs		<u>(1,502,800)</u>	<u>(1,368,998)</u>
Total		<u>183,363,782</u>	<u>148,347,209</u>

The effective interest rates on loans with financial entities range between 3.56% and 6.70% per annum (December 31, 2018: between 3.07% and 6.25%).

The following is a detail of the loans payable outstanding, undrawn balance of committed lines of credit and undrawn balance of uncommitted lines of credit as of September 30, 2019 and December 31, 2018:

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Loans payable outstanding, gross	<u>183,363,782</u>	<u>149,716,207</u>
Undrawn balance of committed lines of credit	<u>13,000,000</u>	<u>25,000,000</u>
Undrawn balance of uncommitted lines of credit	<u>24,781,818</u>	<u>68,500,000</u>

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

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**(9) Bonds**

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

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

			<b>September 30, <u>2019</u></b>	<b>December 31, <u>2018</u></b>
<b><u>Bonds</u></b>	<b>Nominal Interest Rate</b>	<b>Maturity Date</b>	<b><u>Carrying Amount</u></b>	<b><u>Carrying Amount</u></b>
Series A	5.00%	2021	10,000,000	10,000,000
Series B	5.50%	2023	5,000,000	5,000,000
Series C	6.25%	2025	12,934,000	12,934,000
Series D	5.60%	2023	4,500,000	5,400,000
Series E	6.25%	2025	2,000,000	2,000,000
Series F	6.13%	2025	2,000,000	2,000,000
Series G	6.08%	2024	17,500,000	17,500,000
Series H	6.25%	2025	7,500,000	7,500,000
Series I	6.25%	2025	7,500,000	7,500,000
Series J	6.08%	2024	27,500,000	27,500,000
Series K	5.75%	2023	1,500,000	1,500,000
Series L	5.75%	2023	<u>566,000</u>	<u>566,000</u>
			98,500,000	99,400,000
More: re-measurement hedge			<u>5,871,781</u>	<u>1,808,384</u>
			<u>104,371,781</u>	<u>101,208,384</u>

Through Resolution SMV337-19 of the Superintendency of the Securities Market, on August 20, 2019, the public offering of corporate green bonds program in Panama was made, with a nominal value of US\$200,000,000. The corporate green bonds (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.

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**(9) Bonds, continued**

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

<u>Green Bonds</u>	<u>Nominal Interest Rate</u>	<u>Maturity Date</u>	<u>September 30, 2019</u> <u>Carrying Amount</u>
Series A	4.75%	2022	12,687,000
Series B	5.16%	2024	<u>7,800,000</u>
			20,487,000
More: re-measurement hedge			<u>(11,747)</u>
			<u><u>20,475,253</u></u>

**(10) Commercial Paper**

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

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

<u>VCN</u>	<u>Nominal Interest Rate</u>	<u>Maturity Date</u>	<u>September 30, 2019</u> <u>Carrying Amount</u>	<u>December 31, 2018</u> <u>Carrying Amount</u>
Series C	4.00%	2019	0	13,000,000
Series D	4.00%	2019	0	3,000,000
Series E	4.00%	2019	0	4,000,000
Series F	3.75%	2019	0	1,075,000
Series G	4.00%	2019	2,000,000	2,000,000
Series H	4.00%	2019	9,000,000	9,000,000
Series I	4.25%	2019	1,992,000	1,118,000
Series J	4.13%	2020	3,452,000	0
Series K	4.25%	2020	4,922,000	0
Series L	4.13%	2020	<u>2,000,000</u>	<u>0</u>
			<u><u>23,366,000</u></u>	<u><u>33,193,000</u></u>

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**(11) Equity**

Share capital

The Corporation's share capital is comprised of 50,326,383 common shares of US\$1 par value, for a total of US\$50,326,383.

The share capital is distributed as follows:

	<u>September 30, 2019</u>		<u>December 31, 2018</u>	
	<u>Acquired Capital</u>	<u>Ownership Interest</u>	<u>Acquired Capital</u>	<u>Ownership Interest</u>
Norwegian Investment Fund for Developing Countries	17,263,819	34.30%	17,263,819	31.97%
Valora Holdings, S. A.	10,408,585	20.68%	0	0%
Banistmo, S. A.	0	0%	6,122,697	11.34%
Central American Bank for Economic Integration	6,122,697	12.17%	6,122,697	11.34%
Caixa Banco de Investimento, S. A.	6,122,697	12.17%	6,122,697	11.34%
International Finance Corporation	0	0%	4,285,888	7.94%
Caribbean Development Bank	3,673,618	7.30%	3,673,618	6.80%
Finnish Fund for Industrial Cooperation Ltd.	3,673,618	7.30%	3,673,618	6.80%
Itau Unibanco, S. A.	0	0%	3,673,618	6.80%
Banco Pichincha C. A.	<u>3,061,349</u>	6.08%	<u>3,061,349</u>	5.67%
	<u>50,326,383</u>		<u>54,000,001</u>	

**(12) Basic Earnings Per Share**

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

	<u>September 30 2019</u>	<u>September 30, 2018</u>
Net income	<u>2,973,529</u>	<u>2,721,083</u>
Number of shares	<u>50,326,383</u>	<u>54,000,001</u>
Earnings per share	<u>0.06</u>	<u>0.05</u>

**(13) Income Taxes**

Panama

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

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

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

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**(13) Income Taxes, continued**

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>September 30,</u> <u>2019</u>	<u>September 30,</u> <u>2018</u>
Net financial income before income tax	3,354,374	3,040,139
Foreign revenue, exempt and non-taxable, net of costs and expenses	<u>(2,130,994)</u>	<u>(1,763,915)</u>
Net taxable income	<u>1,123,380</u>	<u>1,276,224</u>
Income tax	<u>280,845</u>	<u>319,056</u>

**(14) Derivatives Held for Risk Management Purposes**

*Interest rate derivatives*

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

As of September 30, 2019, the Corporation held the following interest rate swaps as hedging instruments in fair value hedges of interest risk.

Risk category	Maturity				
	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
<b>Interest rate risk</b>					
<b>Hedge of issued bonds</b>					
Notional amount (US\$)	0	0	0	74,753,000	31,934,000
Average fixed interest rate	0	0	0	4.98%	5.41%
Average spread over Libor	0	0	0	3.21%	2.99%
<b>Interest rate risk</b>					
<b>Hedge of issued loans</b>					
Notional amount (US\$)	0	0	0	0	20,900,000
Average fixed interest rate	0	0	0	0	9.25%
Average spread over Libor	0	0	0	0	0%

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

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

US\$	Nominal amount	Carrying amount		September 30, 2019 Line item in the consolidated statement of financial position where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognized in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
		Assets	Liabilities				
<b>Interest rate risk</b>							
Interest rate swaps – hedge of issued bonds	106,687,000	6,363,516	0	Derivative assets held for risk management	6,363,516	388,911	Other income – gain on derivate instruments
Interest rate swaps – hedge of loans	20,900,000	0	58,791	Derivative liabilities held for risk management	58,791	(58,791)	Other income – gain on derivate instruments

US\$	Nominal amount	Carrying amount		December 31, 2018 Line item in the consolidated statement of financial position where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness	Ineffectiveness recognized in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
		Assets	Liabilities				
<b>Interest rate risk</b>							
Interest rate swaps – hedge of issued bonds	94,000,000	1,981,746	0	Derivative assets held for risk management	1,981,746	173,362	Other income – gain on derivate instruments

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

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

Line item in the consolidated statement of financial position in which the hedged item is included	<u>September 30, 2019</u>				
	<u>Carrying amount</u>		<u>Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item</u>		<u>Change value used for calculating hedge ineffectiveness</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
Bonds	0	106,687,000	0	(5,860,034)	(5,860,034)
Loans	20,900,000		58,791		58,791

Line item in the consolidated statement of financial position in which the hedged item is included	<u>December 31, 2018</u>				
	<u>Carrying amount</u>		<u>Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item</u>		<u>Change value used for calculating hedge ineffectiveness</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
Bonds	0	94,000,000	0	(1,808,384)	(1,808,384)

**(15) Impact of Change in Accounting Policy**  
**Definition of a lease**

On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

**As a lessee**

As a lessee, the Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognises right-of-use assets and lease liabilities for most leases - i.e. these leases are on-balance sheet.

The Corporation decided to apply recognition exemptions to short-term leases of computer equipment (see Note 3(s)). For leases of other assets, which were classified as operating under IAS 17, the Corporation recognised right-of-use assets and lease liabilities.

***i. Leases classified as operating leases under IAS 17***

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application - the Corporation applied this approach to its largest property leases; or

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- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments -the Corporation applied this approach to all other leases.

The Corporation used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review, if applicable.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

**ii. Leases previously classified as finance leases**

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019, are determined at the carrying amount of the lease and lease liability under IAS 17 immediately before that date.

Lease liabilities	<b>2019</b>
Maturity analysis – contractual undiscounted cash flows	
Less than one year	171,868
One to five years	938,552
More than five years	602,958
<b>Total undiscounted lease liabilities at September 30</b>	<b>1,713,378</b>
<b>Lease liabilities included in the consolidated statement of position at September 30</b>	<b>1,713,378</b>
Current	171,868
Non-current	1,541,510
<b>Amounts recognized in profit or loss</b>	<b>2019</b>
Interest on lease liabilities	(75,584)
Expenses relating to short-term leases	(14,040)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	(3,808)
<b>Total</b>	<b>(93,432)</b>
<b>Amounts recognized in cash flows</b>	<b>2019</b>
Total cash outflow for leases	212,384
<b>Total</b>	<b>212,384</b>

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**(15) Impact of Change in Accounting Policy, continued**

**Impacts on consolidated financial statements**

On transition to IFRS 16, the Corporation recognized an additional US\$1,832,332 of right-of-use assets and US\$1,832,332 of lease liabilities, without recognizing any difference in retained earnings.

When measuring lease liabilities, the Corporation discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 5.50%.

	<u>January 1, 2019</u>
Commitments at December 31, 2018, from operating leases	2,339,066
Discounted using the incremental borrowing rate at January 1, 2019	1,857,324
– Recognition exemption for:	
- short-term leases	(18,720)
- leases of low-value assets	(6,272)
<b>Lease liabilities recognized at January 1, 2019</b>	<b>1,832,332</b>

**(16) Fair Value of Financial Instruments**

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

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

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

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

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.

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

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

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

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

	<b><u>September 30, 2019</u></b>	
	<b><u>Carrying amount</u></b>	<b><u>Level 2</u></b>
Derivative assets	<u>6,363,516</u>	<u>6,363,516</u>
Derivative liabilities	<u>58,791</u>	<u>58,791</u>

	<b><u>December 31, 2018</u></b>	
	<b><u>Carrying amount</u></b>	<b><u>Level 2</u></b>
Derivative assets	<u>1,981,746</u>	<u>1,981,746</u>

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

	<b><u>September 30, 2019</u></b>	
	<b><u>Carrying amount</u></b>	<b><u>Fair value Level 3</u></b>
Cash and cash equivalents	<u>28,295,603</u>	<u>28,295,603</u>
Investment securities	<u>1,897,688</u>	<u>1,906,308</u>
Loans receivable	<u>385,060,580</u>	<u>408,587,319</u>
Loans payable	<u>183,363,782</u>	<u>190,987,610</u>
Bonds	<u>124,847,034</u>	<u>127,645,336</u>
Commercial paper	<u>23,366,000</u>	<u>23,451,425</u>

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

	<b>December 31, 2018</b>	
	<b><u>Carrying amount</u></b>	<b><u>Fair value Level 3</u></b>
Cash and cash equivalents	<u>15,215,074</u>	<u>15,215,074</u>
Investment securities	<u>1,451,595</u>	<u>1,453,975</u>
Loans receivable	<u>354,494,289</u>	<u>394,944,276</u>
Loans payable	<u>148,347,209</u>	<u>151,515,348</u>
Bonds	<u>101,208,384</u>	<u>98,586,983</u>
Commercial paper	<u>33,193,000</u>	<u>33,050,307</u>

During September 30, 2019, there have not been transfers between Levels of the fair value hierarchy (December 31, 2018: no transfers between Levels).

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

(a) *Cash and cash equivalents*

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

(b) *Investment securities*

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

(c) *Loans receivable*

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

(d) *Loans payable*

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

(e) *Bonds and commercial paper*

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

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**(17) Commitments and Contingencies**

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

As of September 30, 2019, the Corporation has commitments and contingencies in the amount of US\$44,845,831(December 31, 2018: US\$46,563,788), 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.