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

(Panama, Republic of Panama)

Consolidated Financial Statements

December 31, 2017

(With Independent Auditors' Report)

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

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of Corporación Interamericana para el Financiamiento de Infraestructura, S. A. and Subsidiaries ("the Corporation"), which comprise the consolidated statement of financial position as of December 31, 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as of December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

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

Allowance for loan losses
See Notes 3(h) and 5 to the consolidated financial statements

Key audit matter	How the key matter was addressed during the audit
The allowance for loan losses is considered as one of the most significant matters because it requires the use of judgments and subjective assumptions made by management. The loan portfolio´s gross amount represents 90% of the Corporation´s total assets. The allowance for loan losses is comprised of an allowance model for individually assessed loans.	Our audit procedures included: • Assessment by specialists of the allowance model and methodology used, including its internally – developed risk rating • For a sample of loans, examination of credit files to determine whether risk rating assigned was appropriate • For performing loans, recalculation by specialists of the allowance • For credit-impaired loans, an assessment of reasonableness of the amount and timing of estimated recoverable cash flows, including realizable value of collateral.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Panama, Republic of Panama
March 9, 2018

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

Consolidated Statement of Financial Position

December 31, 2017

(Expressed in US Dollars)

	Note	2017	2016
Assets			
Cash and cash equivalents	5	30,356,948	12,247,943
Investment securities, net	5	0	455,304
Loans receivable, net	5	343,635,979	282,932,031
Accrued interest receivable		5,810,464	4,802,066
Assets held-for-sale	5	2,759,566	3,814,221
Furniture, equipment and improvements, net	6	826,643	1,026,901
Receivables from advisory and structuring services	5	5,514,073	3,588,034
Other assets		1,057,678	837,663
Total assets		389,961,351	309,704,163
Liabilities			
Loans payable, net	7	282,573,562	215,565,030
Commercial paper	5, 8	5,000,000	0
Accrued interest payable		1,798,919	1,582,267
Other accounts payable		1,813,324	1,389,680
Total liabilities		291,185,805	218,536,977
Equity			
Share capital	9	54,000,001	54,000,001
Additional paid-in capital		85,000	85,000
Reserves		0	5,044
Retained earnings		44,690,545	37,077,141
Total equity		98,775,546	91,167,186
Total liabilities and equity		389,961,351	309,704,163
Commitments and contingencies			
Unfunded risk participations	14	0	15,700,000
Loans pending disbursement	14	44,317,746	59,100,000
Undrawn balance of credit facilities	5, 7	70,867,714	39,320,017
Notional amount on swaps	12	0	2,222,222

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

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

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017

(Expressed in US Dollars)

	Note	2017	2016
Interest income:			
On cash and cash equivalents		63,102	16,312
On loans receivable		26,058,593	20,439,491
Total interest income		26,121,695	20,455,803
Interest expense:			
On loans payable		(12,948,032)	(9,853,114)
Total interest expense		(12,948,032)	(9,853,114)
Net interest income		13,173,663	10,602,689
Other income (expense):			
Advisory and structuring fees, net		7,553,124	7,730,543
Gain (loss) on derivative instruments		2,759	(10,563)
Total other income		7,555,883	7,719,980
Operating income		20,729,546	18,322,669
Provision for loan losses	5	(2,341,642)	(845,326)
Impairment loss on investment securities	5	(441,959)	(1,982,477)
Impairment loss on assets held-for-sale	5	(1,054,654)	(3,235,961)
Impairment loss on receivable		(255,526)	0
Depreciation expense	6	(122,548)	(51,987)
Personnel expenses		(5,148,132)	(4,838,251)
Other administrative expenses		(3,220,786)	(3,244,164)
Net income before tax		8,144,299	4,124,503
Income taxes	11	(367,792)	(1,203,688)
Net income for the year		7,776,507	2,920,815
Other comprehensive income:			
Items that are or may be reclassified to profit or loss:			
Fair value reserve:			
Net changes in fair value		(2,285)	6,943
Net amount transferred to profit or loss		(2,759)	494,252
Other comprehensive (loss) income for the year		(5,044)	501,195
Total comprehensive income for the year		7,771,463	3,422,010
Basic earnings per share	10	0.14	0.05

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

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

(Expressed in US Dollars)

		Additional	Reserves				
	Share capital	paid-in capital	Fair value reserve	Legal reserve	Total reserves	Retained earnings	Total equity
Balance at December 31, 2015	54,000,001	85,000	(496,151)	2,850,815	2,354,664	32,452,941	88,892,606
Net income for the year	0	0	0	0	0	2,920,815	2,920,815
Other comprehensive income							
Net changes in fair value	0	0	6,943	0	6,943	0	6,943
Net amount transferred to profit or loss	0	0	494,252	0	494,252	0	494,252
Total other comprehensive income	0	0	501,195	0	501,195	0	501,195
Total comprehensive income for the year	0	0	501,195	0	501,195	2,920,815	3,422,010
Transactions with owners of the Corporation							
Complementary tax, Panama	0	0	0	0	0	(107,344)	(107,344)
Dividends paid	0	0	0	0	0	(1,040,086)	(1,040,086)
Other equity transactions							
Transfer of legal reserve to retained earnings	0	0	0	(2,850,815)	(2,850,815)	2,850,815	0
Balance at December 31, 2016	54,000,001	85,000	5,044	0	5,044	37,077,141	91,167,186
Net income for the year	0	0	0	0	0	7,776,507	7,776,507
Other comprehensive income							
Net changes in fair value	0	0	(2,285)	0	(2,285)	0	(2,285)
Net amount transferred to profit or loss	0	0	(2,759)	0	(2,759)	0	(2,759)
Total other comprehensive loss	0	0	(5,044)	0	(5,044)	0	(5,044)
Total comprehensive (loss) income for the year	0	0	(5,044)	0	(5,044)	7,776,507	7,771,463
Transactions with owners of the Corporation							
Complementary tax, Panama	0	0	0	0	0	(163,103)	(163,103)
Balance at December 31, 2017	54,000,001	85,000	0	0	0	44,690,545	98,775,546

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

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

(Expressed in US Dollars)

	Note	2017	2016
Cash flows from operating activities			
Net income for the year		7,776,507	2,920,815
Adjustments for:			
(Gain) loss on derivate instruments		(2,759)	10,563
Provision for loan losses	5	2,341,642	845,326
Impairment loss on investment securities	5	441,959	1,982,477
Impairment loss on assets held-for-sale	5	1,054,654	3,235,961
Impairment loss on receivable		255,526	0
Depreciation	6	122,548	51,987
Net interest income		(13,173,663)	(10,602,689)
Income tax expense	11	367,792	1,203,688
		(815,794)	(351,872)
Changes in:			
Other assets		(1,676,456)	(3,556,414)
Other accounts payable		55,852	(558,696)
Derivative liabilities held for risk management		0	(2,736)
Loan collections		151,412,272	103,035,583
Loan disbursements		(214,457,862)	(134,112,706)
		(64,666,194)	(35,194,969)
Income tax paid		(581,804)	(1,181,942)
Interest received		25,113,297	17,592,179
Interest paid		(12,731,380)	(9,229,545)
		11,800,113	7,180,692
Net cash flows from operating activities		(53,681,875)	(28,366,149)
Cash flows from investing activities			
Acquisition of furniture, equipment and improvements	6	(54,549)	(1,078,888)
Net cash flows from investing activities		(54,549)	(1,078,888)
Cash flows from financing activities			
Proceeds from loans payable		205,230,000	152,750,000
Repayment of loans payable		(138,221,468)	(118,582,326)
Proceeds from commercial paper	8	5,000,000	0
Complementary tax paid		(163,103)	(107,344)
Dividends paid		0	(1,040,086)
Net cash flows from financing activities		71,845,429	33,020,244
Net Increase in cash and cash equivalents		18,109,005	3,575,207
Cash and cash equivalents at the beginning of the year		12,247,943	8,672,736
Cash and cash equivalents at the end of the year		30,356,948	12,247,943

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

(1) Reporting Entity

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

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

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

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

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

	Activity	Country of Incorporation	Controlling Participation
			2017
CIFI SEM, S. A.	Personnel Management	Panama	100%
CIFI PANAMA, S. A.	Lending & Financing Structuring	Panama	100%
CIFI LATAM, S. A.	Lending & Financing Structuring	Panama	100%

The consolidated financial statements were authorized for issuance by the Corporation's Board of Directors on March 8, 2018.

(2) Basis of Preparation

(a) *Statement of compliance*

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

(b) *Basis of measurement*

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

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

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

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

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

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

- Allowance for loan losses and interest receivable – note 5;
- Impairment of assets held-for-sale – note 5;
- Derivatives held for risk management purposes – note 12; and
- Fair value of financial instruments – note 13.

(3) Significant Accounting Policies

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

(a) Basis of Consolidation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(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 periodic basis, as to whether the hedging instrument is expected to be ‘highly effective’ in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognized asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognized immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the consolidated statement of comprehensive income as the hedged item).

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

(f) *Investment securities*

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

<u>Fair value through profit or loss:</u>

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

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

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

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

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

(g) *Loans receivable*

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

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

(h) *Allowance for loan losses*

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

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

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

For the category of loans and receivables, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (regardless of future credit losses that have not been incurred) discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is reduced and the amount of the loss is recognized in the provision for losses. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

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

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

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

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

Improvements	5 years
Furniture and equipment	4-5 years

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

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

(k) *Other accounts payable*
Other accounts payable are carried at amortized cost.

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

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

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

Deferred income tax represents the amount of income tax payable and/or receivable in future years resulting from temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. These temporary differences are expected to be reversed in future years. If it is determined that the deferred tax would not be realized in future years, the deferred tax will be totally or partially reduced. The Corporation has not recognized any deferred tax assets or liabilities at December 31, 2017.

(n) Income and expense recognition

(i) Interest income and expense

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

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

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

(ii) Fee and commission income and expenses

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

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

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

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

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

(r) *New standards and interpretations not yet adopted*
At the reporting date, there are standards, amendments and interpretations which are not effective for the period ended December 31, 2017 and, consequently, have not been applied in preparing these consolidated financial statements.

IFRS 9 Financial Instruments:

In July 2014, the International Accounting Standards Board issued the final version of International Financial Reporting Standard No. 9 (IFRS 9) Financial Instruments, which replaces International Accounting Standard No. 39 (IAS 39).

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is allowed.

The Corporation has completed a preliminary impact assessment and most of the accounting analysis and has commenced work on the design and implementation of models, systems, processes and controls.

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

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Based on a preliminary assessment, the Corporation does not consider that the new classification, as of January 1, 2018, would result in a significant impact on the consolidated financial statements.

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

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

In accordance with IFRS 9, provisions for losses will be measured in any of the following bases:

- ECL of 12 months: they represent ECLs that result from possible non-compliance events within 12 months after the date of the report; and
- ECL for life: they represent ECLs that result from all possible events of default during the expected life of the financial asset.

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

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

The Corporation's preliminary assessment indicates that the application of the impairment requirements of IFRS 9 as of December 31, 2017 will impact impairment reserves of financial assets as of January 1, 2018 with an approximate increase between US$4,900,000 and US$5,000,000 compared to impairment losses under IAS 39.

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

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

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

- the remaining amount of change in the fair value is presented in profit or loss.

The Corporation has not designated any liabilities as at FVTPL and does not intend to do so. The preliminary assessment of the Corporation indicated that there would be no material impact if the requirements of IFRS 9 related to the classification of financial liabilities as of January 1, 2018 were applied.

IV. Hedge accounting
When initially applying IFRS 9, the Corporation may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. The Corporation's current plan is that it will elect to continue applying IAS 39.

V. Disclosures
IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. The Corporation's preliminary assessment included an analysis to identify data gaps against current processes and the Corporation plans to implement the system and controls changes that it believes will be necessary to capture the required data, before the issuance of the first quarterly consolidated financial statements.

VI. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below:

The Corporation plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at January 1, 2018.

IFRS 15 Revenue from Contracts with Customers:

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

IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

In the opinion of management, the application of the IFRS 15 will cause no significant changes in the consolidated financial statements.

(4) Balances and Transactions with Related Parties

For the year ended December 31, 2017 the Corporation entered transactions with parties that are considered to be related.

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

			2017		
Type of entity	**Relationship**	**Assets - Deposits Due from Banks**	**Liabilities-Loans and Accrued Interest Payable**	**Interest Income on Deposits**	**Interest Expenses on Loans Payable**
Legal entities	Shareholders	3,427	57,065,864	3,521	2,579,686

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

The Corporation has access to US$14,710,850 (2016: US$3,570,017) of undisbursed committed and uncommitted lines of credit with related parties.

Members of the Board of Directors have received remuneration of US$114,183 (2016: US$80,500) for attending meetings during the year.

For the year ended December 31, 2017 personnel expenses include salaries and benefits paid to key executive officers for US$885,614 (2016: US$883,140).

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% (2016: 3%) of each employee's annual base salary. The Corporation makes its contributions to an independent fund manager and expenses those contributions as incurred. The Corporation has no future commitment to manage the funds contributed.

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

(5) Financial Risk Management

In the normal course of operations, the Corporation is exposed to different types of financial risks, which are minimized through the application of risk management policies and procedures. Those policies cover credit, liquidity, market, 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 Committe and the Nominating and Corporate Governance-Compensation Committee. All report regularly to the Board of Directors and are comprised of members of the Board and independent members.

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

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

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 intern auditing function, and the Board.

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

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

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

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

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

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

At December 31, 2017, the concentrations of credit risk by sectors and countries are within the limits established by the Corporation. There are no significant concentrations of credit risk by economic unit, sector, or country. The maximum exposure to credit risk is represented by the nominal amount of each financial asset.

Loans receivable and investment securities are as follows:

Loans and investment securities, net	2017	2016
Available-for-sale investment portfolio:		
Par value	8,080,925	8,094,270
Impairment losses on investment securities	(8,080,925)	(7,638,966)
Investment securities, net	0	455,304
Loans	352,575,888	289,091,199
Allowance for loan losses	(7,107,300)	(4,765,658)
Deferred income	(1,832,609)	(1,393,510)
Loans, net	343,635,979	282,932,031
Total investments and loans (par value)	360,656,813	297,185,469
Total investments and loans, net	343,635,979	283,387,335

The loan portfolio includes the financing of project bonds totaling US$2,694,168 (2016: US$3,299,664).

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

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

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

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

Portfolio risk ratings are as follows:

2017	Loans		Investment securities	
Risk rating	Gross	Net (*)	Nominal Value	Net (*)
AAA / A-	35,549,927	35,549,927	0	0
BBB+ / BBB-	30,085,374	30,085,374	0	0
BB+ / BB-	120,642,692	120,477,143	0	0
B+ / B-	144,297,222	141,989,097	0	0
<= CCC+	22,000,673	17,367,048	8,080,925	0
	352,575,888	345,468,589	8,080,925	0

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

(*) Net of impairment allowance.

As of December 31, 2017, the Corporation has a past due loan for US$9,751,760 (2016: no past due loans); the non-accrued interest for this past due loan amounts to US$624,637.

To secure some of its loans payable, at December 31, 2017 the Corporation has pledged to the lenders rights to cash flows derived from certain loans receivable granted by the Corporation; those cash flows derive from certain loan and investment security portfolios representing 31.48% (2016: 49.07%) of the total assets.

Changes in the allowance for loan losses are as follows:

	2017	2016
Balance at beginning of year	(4,765,658)	(3,920,332)
Provision for the year	(2,341,642)	(845,326)
Balance at end of year	(7,107,300)	(4,765,658)

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

	2017	**2016**
Balance at beginning of year	(7,638,966)	(5,472,313)
Allowance for the year	(441,959)	(1,982,477)
Unamortized discounts reclassified to allowance	0	(184,176)
Balance at end of year	(8,080,925)	(7,638,966)

As of December 31, 2017, the Corporation has not recorded any allowance for losses on accrued interest and other receivables.

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% (2016: 97%) as follows:

	2017	**2016**
Mortgage on fixed assets	141,187,575	83,897,070
Assets held in trust	165,885,098	127,401,556
Pledge on movable assets	24,952,415	10,965,000
Corporate guarantor	17,000,000	57,142,857
Unsecured	3,550,800	9,684,716
	352,575,888	289,091,199

The investment securities portfolio for US$8,080,925 (2016: US$8,094,270) is secured with mortgage on fixed assets. The impairment of this investment does not consider the mortgage because its realizable value and execution process are uncertain.

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

Loans and investment securities earn interest at rates ranging between 4.07% and 15.00% per annum (2016: 2.85% and 15.00%).

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

Tier	CIFI Credit Rating	Without Guarantees	With Guarantees
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:

	% of total equity 2017		% of total equity 2016	
	Number of exposures	U.S. dollars	Number of exposures	U.S. dollars
0 to 4.99%	17	43,919,267	15	42,841,649
5 to 9.99%	14	103,399,570	14	89,164,015
10 to 14.99%	12	143,757,051	9	96,585,535
15 to 18%	4	61,500,000	4	60,500,000
	47	352,575,888	42	289,091,199

- Country risk: The Corporation uses a series of classifications by country risk and gross domestic product to place countries in the following risk categories: Prime, Normal, Fair, and Restricted. Under this system, country size is less relevant for high-risk countries and more significant for low-risk countries. Each category has a maximum credit limit on the total value of the corresponding loan portfolio. As of December 31, 2017, the Corporation complied with country risk exposure limits.

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

	2017	2016
Argentina	55,558,108	14,380,000
Brazil	50,667,429	25,720,179
Colombia	40,752,159	22,349,014
Ecuador	37,797,637	44,997,575
Peru	26,338,462	28,400,000
Panama	22,809,820	17,779,664
Chile	18,811,538	10,306,770
Honduras	18,248,913	28,576,869
Nicaragua	15,707,989	16,896,009
Paraguay	15,500,000	15,500,000
Guatemala	13,600,000	6,000,000
Uruguay	13,549,927	10,000,000
Belize	13,125,000	10,000,000
Jamaica	9,402,413	7,264,115
Mexico	7,789,583	21,630,578
Costa Rica	997,835	2,993,506
Haiti	0	5,000,000
Dominican Republic	0	7,726,190
Santa Lucia	0	1,665,000
Gross loans and investment portfolio	360,656,813	297,185,469
Assets held-for-sale (Panama)	2,759,566	3,814,221
Total	363,416,379	300,999,690

- Sector risk: The Corporation limits its concentration in any sector to 50% of the corresponding country risk limit. As of December 31, 2017, the Corporation complied with sector risk exposure limits. In addition, The Corporation has an energy sector exposure limit to control exposure to regulatory and market risks that may be common to the energy sectors, which be limited to 75% of the corresponding country exposure limit. Most of the renewable energy projects in the portfolio have fixed price contracts, which mitigate the cost of energy going down on renewals.

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

	2017	**2016**
Airports and Seaports	62,560,522	47,844,003
Gas & Oil	62,414,464	25,671,831
Solar Power	43,880,447	63,780,273
Wind Power	35,302,937	33,869,986
Hydro Power (Mini)	25,184,242	20,294,171
Co-generation (Biomass)	25,153,125	12,212,500
Construction & Engineering	20,094,308	16,479,893
Telecommunications	15,000,000	20,165,000
Water & Sanitation	14,200,000	0
Infrastructure Conglomerates	13,600,000	0
Roads, Railroads and Other	13,149,745	16,187,925
Tourism	11,338,462	13,400,000
Logistical Centers and Other	7,000,000	7,000,000
Geothermal	5,454,979	5,806,021
Thermo Power	5,325,747	11,480,359
Power Distribution	997,835	2,993,507
Gross loans and investment portfolio	360,656,813	297,185,469
Assets held-for-sale (Thermo Power)	2,759,566	3,814,221
Total	363,416,379	300,999,690

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 year ended December 31, 2017 write-downs of US$1,054,654 on the asset held-for-sale were made to lower its carrying amount to its value in use (2016: US$3,235,961).

The carrying value of the asset held for sale as of December 31, 2017 is US$2,759,566 (2016: US$3,814,221). As of December 31, 2017, the asset is being actively traded.

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

	2017	**2016**
Balance at beginning of the period	(4,289,462)	(1,053,501)
Allowance for the period	(1,054,654)	(3,235,961)
Balance at end of the period	(5,344,116)	(4,289,462)

In addition, commissions receivable from corporate services rendered to third parties, amounting to US$5,514,073 (2016: US$3,588,034), which are presented as receivable from advisory and structuring services, are classified as performing receivables.

(b) Liquidity risk

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

Management of liquidity risk

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

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

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

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

As of December 31, 2017, the Corporation had US$30,356,948 (2016: US$12,247,943) in cash and cash equivalents, and maintains undisbursed and available balances of committed credit facilities with financial institutions for US$25,000,000 (2016: US$35,750,000) with tenors between 2017 and 2020 (2016: tenors between 2017 and 2020). Additionally, the Corporation maintains undisbursed and available balances of uncommitted short term revolving credit facilities with financial institutions for US$45,867,714 (2016: US$3,570,017). (See note 7).

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

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

2017	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
Assets							
Cash and cash equivalents	30,356,948	0	0	0	0	0	30,356,948
Loans and investments, gross	38,846,807	17,521,805	2,347,887	5,942,874	19,693,745	276,303,695	360,656,813
Accrued interest receivable	1,776,228	955,684	2,539,169	539,383	0	0	5,810,464
Assets held-for-sale	0	0	0	0	0	2,759,566	2,759,566
Receivables from advisory and structuring services	2,327,202	1,535,275	22,071	1,265,532	0	363,993	5,514,073
Total	73,307,185	20,012,764	4,909,127	7,747,789	19,693,745	279,427,254	405,097,864
Liabilities							
Loans payable, gross	34,093,268	12,105,957	25,209,982	45,908,175	39,546,036	127,852,669	284,716,087
Commercial paper	0	0	0	0	5,000,000	0	5,000,000
Accrued interest payable	682,843	470,008	355,844	290,224	0	0	1,798,919
Total	34,776,111	12,575,965	25,565,826	46,198,399	44,546,036	127,852,669	291,515,006

2016	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
Assets							
Cash and cash equivalents	12,247,943	0	0	0	0	0	12,247,943
Loans and investments, gross	3,857,552	3,636,862	31,231,332	21,982,797	35,018,387	201,458,539	297,185,469
Accrued interest receivable	517,178	1,683,296	923,923	1,048,865	628,804	0	4,802,066
Assets held-for-sale	0	0	0	0	0	3,814,221	3,814,221
Receivables from advisory and structuring services	0	3,588,034	0	0	0	0	3,588,034
Total	16,622,673	8,908,192	32,155,255	23,031,662	35,647,191	205,272,760	321,637,733
Liabilities							
Loans payable, gross	13,398,716	12,105,957	2,517,482	28,985,917	34,895,793	125,680,452	217,584,317
Accrued interest payable	407,455	738,422	230,541	205,849	0	0	1,582,267
Derivative liabilities	0	0	0	(3,025)	0	5,120	2,095
Total	13,806,171	12,844,379	2,748,023	29,188,741	34,895,793	125,685,572	219,168,679

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

2017	Carrying amount*	Gross nominal (outflow)	Less than 1 month	Over 1 to 3 months	Over 3 months to 1 year	Over 1 to 5 years	Over 5 years
Non-derivative liabilities							
Loans payable, gross *	284,716,087	(284,716,087)	(34,093,268)	(37,315,940)	(85,454,211)	(125,008,961)	(2,843,707)
Commercial paper	5,000,000	(5,000,000)	0	0	(5,0000,000)	0	0
Interest **	1,798,919	(22,426,529)	(801,333)	(1,570,989)	(8,522,870)	(11,531,337)	0
Unrecognized loan commitments	0	(70,867,714)	(70,867,714)	0	0	0	0
Total	286,515,006	(378,010,330)	(105,762,315)	(38,886,929)	(93,977,081)	(136,540,298)	(2,843,707)

2016	Carrying amount*	Gross nominal (outflow)	Less than 1 month	Over 1 to 3 months	Over 3 months to 1 year	Over 1 to 5 years	Over 5 years
Non-derivative liabilities							
Loans payable, gross *	217,584,317	(217,584,317)	(13,398,717)	(14,623,440)	(63,881,709)	(120,339,542)	(5,340,909)
Interest **	1,582,267	(17,640,873)	(370,323)	(1,643,470)	(5,749,295)	(9,583,843)	(293,942)
Unrecognized loan commitments	0	(70,100,000)	(70,100,000)	0	0	0	0
Derivative liabilities							
Interest rate swaps **	0	3,025	0	0	3,025	0	0
Total	219,166,584	(305,322,165)	(83,869,040)	(16,266,910)	(69,627,979)	(129,923,385)	(5,634,851)

* Excludes deferred commissions
** Includes estimated interest payments at projected forward LIBOR rates

(c) *Market risk*

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

Foreign currency risk

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

As of December 31, 2017, all of the Corporation's assets and liabilities are denominated in U.S. dollars. Accordingly, no foreign currency risk is anticipated.

Interest rate risk

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

Most of the Corporation's interest-earning assets and interest-bearing liabilities are re-priced at least quarterly. As of December 31, 2017, 8% (2016: 21%) of interest-earning assets and 11% (2016: 7%) 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.

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

2016	Assets	Liabilities	Net
Present Value	318,358,241	(225,202,638)	93,155,603
Sensitivity of variation (excluding IRS)	0.51	0.47	
Nominal amount of interest rate swaps	2,222,222		
Sensitivity of the IRS variation	-0.97		
Sensitivity of variation (including IRS)	0.43	0.47	-0.05
Floating rate as a % total	71.26%	92.73%	
Fixed rate as a % total	26.36%	7.27%	
Net Portfolio's Sensitivity to 100bp change in interest rate			0.59%
POLICY LIMIT:			+/- 1.50

A change of 100 basis points in interest rates would have increased or decreased the Corporation's net economic value by US$183,488, which represents a change of +/-2.32% of annualized net income and +/- 0.19% of equity as of December 31, 2017.

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

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

2016	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	Over 365 days	Total
Assets:							
Loans and investments, gross	42,288,626	57,120,073	35,732,113	76,346,357	41,785,638	43,912,662	297,185,469
Liabilities:							
Loans payable, gross	30,939,315	57,166,376	19,615,386	81,463,481	14,195,214	14,204,545	217,584,317
Net position	11,349,311	(46,303)	16,116,727	(5,117,124)	27,590,424	29,708,117	79,601,152

(d) Operational risk

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

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

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

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

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

(e) *Capital management*

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

	2017	**2016**
Tier 1 capital	98,775,546	91,162,142
Total capital	98,775,546	91,162,142

	2017	**2016**
Risk weight of 20%	6,071,390	2,449,589
Risk weight of 50%	22,158,873	30,573,397
Risk weight of 100%	359,604,403	297,319,969
Risk - weighted assets	387,834,666	330,342,955
Capital adequacy	25.47%	27.60%
Required capital adequacy (established by the Board)	20.00%	20.00%

(6) Furniture, Equipment and Improvements

Furniture, equipment and improvements are summarized as follows:

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

	2016				
	Furniture and Equipment	**Property Improvements**	**Computer Equipment**	**Project in Progress**	**Total**
Cost:					
Balance at January 1, 2016	0	0	0	0	0
Additions	147,755	739,654	59,220	132,259	1,078,888
Balance at end of year	147,755	739,654	59,220	132,259	1,078,888
Accumulated depreciation:					
Balance at January 1, 2016	0	0	0	0	0
Expense of the year	12,331	30,819	8,837	0	51,987
Balance at end of year	12,331	30,819	8,837	0	51,987
Net balance	135,424	708,835	50,383	132,259	1,026,901

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

(7) Loans Payable

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

	Maturity	2017	2016
Foreign Financial Institutions			
Entrepreneurial Development Bank (FMO)	2020	27,000,000	36,000,000
Inter-American Development Bank	2019	22,371,128	37,166,376
Corporación Andina de Fomento - Syndicate	2020	59,142,857	35,750,000
Corporación Andina de Fomento	2018	25,000,000	25,000,000
Itau Corpbanca	2018	6,666,667	20,000,000
Caribbean Development Bank	2024	14,207,343	16,477,273
Opec Fund for International Development (OFID)	2022	12,272,727	15,000,000
Central American Bank for Economic Integration	2018	7,289,150	13,058,850
German Investment Corporation (KFW DEG)	2019	4,615,385	6,923,077
Central American Bank for Economic Integration	2017	0	5,371,133
Opec Fund for International Development (OFID)	2018	2,307,694	4,615,386
Belgian Investment Company for Developing Countries / Swiss Investment Fund for Emerging Markets	2017	0	2,222,222
Norwegian Investment Fund for Developing Countries	2018	25,000,000	0
Global Climate Partnership Fund	2022	23,000,000	0
Bancaribe Curacao Bank NV	2019	10,000,000	0
Local Financial Institutions			
Banco Pichincha Panamá, S. A.	2018	10,000,000	0
MMG Bank, S.A.	2018	10,000,000	0
Banco Internacional de Costa Rica, S. A.	2018	16,608,457	0
Banco Internacional de Costa Rica, S. A.	2019	9,234,679	0
		284,716,087	217,584,317
Deferred expense		(2,142,525)	(2,019,287)
Total		282,573,562	215,565,030

The effective interest rates on loans with financial entities range between 2.77% and 5.50% per annum (2016: between 2.21% and 5.27%).

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

	2017	2016
Loans payable outstanding	284,716,087	217,584,317
Undrawn balance of committed lines of credit	25,000,000	35,750,000
Undrawn balance of uncommitted lines of credit	45,867,714	3,570,017

See note 5.b. for information on outstanding contractual maturities of borrowings. The Corporation has never had any defaults of principal, interest or other covenant breaches with respect to its loans payable.

(8) Commercial Paper

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

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

VCN	Nominal Interest Rate	Maturity Date	2017 Carrying Amount
Series A	3.50%	2018	5,000,000
			5,000,000

(9) Equity

Share capital

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

The share capital is distributed as follows:

	2017		2016	
	Acquired Capital	**Ownership Interest**	**Acquired Capital**	**Ownership Interest**
Norwegian Investment Fund for Developing Countries	17,263,819	31.97%	17,263,819	31.97%
Banistmo, S. A.	6,122,697	11.34%	6,122,697	11.34%
Central American Bank for Economic Integration	6,122,697	11.34%	6,122,697	11.34%
Caixa Banco de Investimento, S. A.	6,122,697	11.34%	6,122,697	11.34%
International Finance Corporation	4,285,888	7.94%	4,285,888	7.94%
Caribbean Development Bank	3,673,618	6.80%	3,673,618	6.80%
Finnish Fund for Industrial Cooperation Ltd.	3,673,618	6.80%	3,673,618	6.80%
Itau Unibanco, S. A.	3,673,618	6.80%	3,673,618	6.80%
Banco Pichincha C. A.	3,061,349	5.67%	3,061,349	5.67%
	54,000,001		54,000,001	

Reserves

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

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

(10) Basic Earnings Per Share

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

	2017	2016
Net income	7,776,507	2,920,815
Number of shares	54,000,001	54,000,001
Earnings per share	0.14	0.05

(11) Income Taxes

Panama

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

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

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

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

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

Panama	**2017**	**2016**
Net financial income before income tax	7,594,397	4,124,503
Foreign revenue, exempt and non-taxable, net of costs and expenses	(6,914,298)	(3,608,867)
Net taxable income	680,099	515,636
Income tax	170,025	128,909

United States of America (U.S.)
The income tax returns of the Corporation are subject to examination by the state and federal income tax authorities for the last three (3) years, in accordance with current U.S. tax regulations.

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

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

Our calculation of the Branch Profit Tax provision is determined under IRC 884(a) which treats a U.S. branch of a foreign corporation as if it were a U.S. subsidiary of a foreign corporation for purposes of taxing profit repatriations. As such, under IRC 884(a), earnings and profits of a branch of a foreign corporation are deemed remitted to its home office. The U.S. branch would be subject to a dividend withholding tax on payments to its foreign parent of 30% of profit repatriations. As of December 31, 2017, the Corporation did not have assets that qualify for the calculation of the Branch Profit Tax provision; this significantly reduced the U.S. income taxes with respect to 2016.

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

U.S.	2017	2016
Net financial income before income tax	7,594,397	4,124,503
Foreign revenue, exempt and non-taxable, net of costs and expenses	(7,073,407)	(3,720,317)
Net taxable income per Virginia state tax	520,990	404,186
Current Virginia state tax expense, estimated	31,259	24,251
Net taxable income per Federal income tax	489,731	379,935
Current Federal income tax expense, estimated	166,508	1,050,528
Total U.S. income taxes	197,767	1,074,779
Total Panama and U.S. income taxes	367,792	1,203,688

The effective tax rate of the Corporation for the year ended December 31, 2017 was 4.52% (2016: 29.18%). The Corporation has not recognized any deferred income taxes, as future taxable profit does not currently provide convincing evidence that those benefits will be fully or partially used.

(12) Derivatives Held for Risk Management Purposes

Interest rate derivatives

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

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

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

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

During 2017, the Corporation has recognized a realized gain of US$2,759 (2016: an unrealized gain of US$2,736) in the consolidated statement of comprehensive income, derived from the net change in fair value of the derivatives.

During 2017, the Corporation recognized in other comprehensive income, a net realized gain of US$2,285 (2016: an unrealized gain of US$6,943), representing the change in fair value of the cash flow hedge.

(13) 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.

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:

	2017	
	Carrying amount	**Fair value Level 2**
Investment securities	0	0

	2016	
	Carrying amount	**Fair value Level 2**
Investment securities	455,304	455,304
Derivative assets	3,010	3,010

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

	2017	
	Carrying amount	**Fair value Level 3**
Loans receivable	343,635,979	399,162,781
Loans payable	282,573,562	292,305,117

	2016	
	Carrying amount	**Fair value Level 3**
Loans receivable	282,932,031	305,464,117
Loans payable	215,565,030	225,202,638

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

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

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

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

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

(14) Commitments and Contingencies

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

As of December 31, 2017, the Corporation has commitments and contingencies in the amount of US$44,317,746, corresponding to credits pending disbursement to various entities. As of December 31, 2016, the Corporation had commitments and contingencies in the amount of US$74,800,000, corresponding to credits pending disbursement to various entities in the amount of US$59,100,000; and commitments for undersigned guaranty agreements and letters of credit in the amount of US$15,700,000.

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