# DÉCIMO TERCER FIDEICOMISO DE BONOS DE PRÉSTAMOS HIPOTECARIOS

**(Thirteenth Mortgage Backed Notes Trust)**
**(With Banco La Hipotecaria, S.A. acting as Fiduciary)**
(Panama, Republic of Panama)

**Financial Statements**

December 31, 2017

(With Independent Auditors' Report Thereon)

"This document has been prepared with the knowledge that its content will be made available to the public investors and general public."

(FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION)

**DÉCIMO TERCER FIDEICOMISO DE BONOS DE PRÉSTAMOS HIPOTECARIOS**
**(With Banco La Hipotecaria, S. A., acting as Fiduciary)**
(Panama, Republic of Panama)

Table of Contents


Independent Auditors' Report

Statement of Financial Position
Statement of Income
Statement of Changes in Equity
Statement of Cash Flows
Notes to the Financial Statements

**KPMG**
Apartado Postal 816-1089
Panamá 5, República de Panamá

Teléfono: (507) 208-0700
Fax: (507) 263-9852
Internet: www.kpmg.com

**FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION**

## INDEPENDENT AUDITORS' REPORT

To the Fiduciary
**Décimo Tercer Fideicomiso de Bonos de Préstamos Hipotecarios**

*Opinion*

We have audited the financial statements of Décimo Tercer Fideicomiso de Bonos de Préstamos Hipotecarios ("the Trust") with Banco La Hipotecaria, S. A. acting as Fiduciary ("the Fiduciary"), which comprise the statement of financial position as at December 31, 2017, the statements of income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Décimo Tercer Fideicomiso de Bonos de Préstamos Hipotecarios with Banco La Hipotecaria, S. A. acting as Fiduciary as at December 31, 2017, and its financial performance and its 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 Financial Statements* section of our report. We are independent of the Trust in accordance with 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 financial statements in the Republic of Panama 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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 4(d), 6 and 8 to the financial statements*

| Key audit matter | How the key matter was addressed in our audit |
|---|---|
| The allowance for loan losses requires judgment application and use of assumptions made by the Fiduciary. The loan portfolio represents 99% of the total assets of the Trust. The allowance for loan losses comprises the allowance for loans individually assessed and loan collectively assessed.<br><br>The allowance for loans individually assessed is determined by an assessment of the exposures case by case based in judgment and estimates of the management when an impairment event has occurred and the present value of the expected cash flows are uncertain.<br><br>The collective allowance for impairment is determined in accordance to the grouping of loans with similar credit risk characteristics. | Our audit procedures included:<br><br>• Control tests over the delinquent assessment, customers' internal risk ratings, annual review of loans, customers' risk review, models and methodologies used.<br><br>• For a sample of loans, a test of the credit files of such customers and review of the allowance estimate assessment prepared by Fiduciary.<br><br>• For individual allowance model, a test of the cash flows' calculation considering the value of the collateral in reference to specialists developed valuations.<br><br>• Tests of the key inputs used in to calculate the collective impairment allowance model.<br><br>• Assessment of the Fiduciary judgment over the actual economy and credit conditions related assumptions that could change the real loss level, based in our experience and knowledge of the industry.<br><br>• Assessment of the delinquency profiles for personal and mortgage loans.<br><br>• Assessment with our specialists of the collective allowance model and recalculation of such allowance. |

*Responsibilities of Fiduciary for the Financial Statements*

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

In preparing the financial statements, the Fiduciary is responsible for assessing the Trust'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 the Fiduciary and/or Trustees either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

La Hipotecaria (Holding), Inc. (the "Trustee"), is responsible for overseeing the Trust's financial reporting process.

*Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Fiduciary's internal control.

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

- Conclude on the appropriateness of the Fiduciary'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 Trust'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 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 Trust to cease to continue as a going concern.

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

We communicate with the Fiduciary 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 provided the Fiduciary 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 the Fiduciary, we determine those matters that were of most significance in the audit of the 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 on the audit resulting in this independent auditors' report is Kuldip Singh K.

KPMG (SIGNED)

Panama, Republic of Panama
March 27, 2018

**DÉCIMO TERCER FIDEICOMISO DE BONOS DE PRÉSTAMOS HIPOTECARIOS**
**(with Banco La Hipotecaria, S. A., acting as Fiduciary)**
(Panama, Republic of Panama)

**Statement of Financial Position**

December 31, 2017

(Amounts in Balboas)

| **Assets** | **Note** | **2017** | **2016** |
|---|---|---|---|
| Cash in banks | 7 | 453,644 | 479,459 |
| Residential mortgage loans, net | 8 | 41,707,860 | 44,134,752 |
| Interest receivable | | 105,039 | 72,963 |
| Foreclosed assets for sale | | 50,046 | 0 |
| **Total assets** | | 42,316,589 | 44,687,174 |
| **Liabilities and Equity** | | | |
| Bonds payable | 9, 12 | 41,488,550 | 44,318,670 |
| Interest payable | 10, 12 | 170,075 | 119,672 |
| Account payable | 12 | 652,964 | 243,832 |
| **Total liabilities** | | 42,311,589 | 44,682,174 |
| Equity | 2 | 5,000 | 5,000 |
| **Total liabilities and equity** | | 42,316,589 | 44,687,174 |

*The statement of financial position should be read along with the accompanying notes which are an integral part of the financial statements.*

**Statement of Income**

For the year ended December 31, 2017

(Amounts in Balboas)

| | Note | 2017 | 2016 |
|---|---|---|---|
| Interest income: | | | |
| Loans | | 3,228,775 | 899,699 |
| Deposit in bank | | 837 | 356 |
| **Total interests** | | 3,229,612 | 900,055 |
| Interest expense on bonds | 12 | 2,102,999 | 586,496 |
| **Net interest income before provision** | | 1,126,613 | 313,559 |
| Provision for loan losses | 8 | 3,006 | 0 |
| **Net interest income after provision** | | 1,123,607 | 313,559 |
| Other income | | 0 | 48,508 |
| Operating expenses: | | | |
| Commissions | 2 | 626,709 | 172,963 |
| Other | | 496,898 | 189,104 |
| **Total operating expenses** | | 1,123,607 | 362,067 |
| **Excess of income over expenses** | | 0 | 0 |

*The statement of income should be read along with the accompanying notes which are an integral part of the financial statements.*

**Statement of Changes in Equity**

For the year ended December 31, 2017

(Amounts in Balboas)

| | **2017** | **2016** |
|---|---|---|
| **Trust equity:** | | |
| Balance at the beginning of the year | 5,000 | 0 |
| Initial contribution | 0 | 5,000 |
| Balance at the end of the year | 5,000 | 5,000 |

*The statement of changes in equity should be read along with the accompanying notes which are an integral part of the financial statements.*

## DÉCIMO TERCER FIDEICOMISO DE BONOS DE PRÉSTAMOS HIPOTECARIOS
**(with Banco La Hipotecaria, S. A., acting as Fiduciary)**
(Panama, Republic of Panama)

**Statement of Cash Flows**

For the year ended December 31, 2017

(Amounts in Balboas)

| | 2017 | 2016 |
|---|---|---|
| **Operating activities:** | | |
| Adjustments to reconcile cash from operating activities: | | |
| Provision for loan losses | 3,006 | 0 |
| Interest income | (3,229,612) | (900,055) |
| Interest expense | 2,102,999 | 586,496 |
| **Changes in operating assets and liabilities:** | | |
| Residential mortgage loans | 2,373,840 | (44,134,752) |
| Accounts payable | 409,132 | 243,832 |
| **Cash provided by operations:** | | |
| Interest received | 3,197,536 | 827,092 |
| Interest paid | (2,052,596) | (466,824) |
| **Cash flows from operating activities** | 2,804,305 | (43,844,211) |
| **Financing activities:** | | |
| Bonds payable | (2,830,120) | 44,318,670 |
| Equity contribution | 0 | 5,000 |
| **Cash flows from financing activities** | (2,830,120) | 44,323,670 |
| Net increase (decrease) on cash | (25,815) | 479,459 |
| Cash at the beginning of the year | 479,459 | 0 |
| **Cash at the end of the year** | 453,644 | 479,459 |

*The statement of cash flows should be read along with the accompanying notes which are an integral part of the financial statements.*

## (1) Incorporation of the Trust and Fiduciary

La Hipotecaria (Holding), Inc., a company incorporated under the laws of the British Virgin Islands, is the wholly owner of the shares issued with voting rights of Banco La Hipotecaria, S. A., among other companies. Main stockholder of La Hipotecaria (Holding), Inc. is Grupo ASSA, S. A. with a 69.01%.

Banco La Hipotecaria, S. A., ("the Fiduciary or Manager") previously La Hipotecaria, S. A., was incorporated on November 7, 1996, under the laws of the Republic of Panama. As per resolution S.B.P. N° 120-2010 of June 4, 2010, the Superintendence of Banks of Panama granted a General Banking License to initiate operations officially as a Bank on June 7, 2010. Its principal activity is granting residential mortgages and personal loans, managing and securitizing residential mortgages and personal loans.

The Trust's business in Panama is regulated by the law No.1 of January 5, 1984, and the Executive Decree No.16 of October 3, 1997. In order to support the fiduciary operation, the Bank has government bonds in favor of the Superintendence of Banks with a nominal value of B/.225,000 and a deposit in the Banco Nacional de Panama amounted B/.25,000, both in guarantee for the due compliance of its obligations arising from the Fiduciary License.

By Public Deed of April 6, 2016, La Hipotecaria (Holding) Inc., as Trustor and Trustee and Banco La Hipotecaria S. A. as Fiduciary, constituted the Décimo Tercer Fideicomiso de Bonos de Préstamos Hipotecarios (the Trust), with the objectives of, among others, to transfer a portfolio of mortgage loans to a guarantee trust (the Guarantee Trust) to support the payment of bonds to be issued by the fiduciary of the Décimo Tercer Fideicomiso de Bonos de Préstamos Hipotecarios. B. G. Trust, Inc. acts as the Fiduciary of Guarantee Trust, La Hipotecaria, S. A. de C. V. (El Salvador) as the Manager in the Guarantee Trust and Banco General, S. A. as the Paying Agent. The Manager, subject to the terms and conditions of the Management Agreement, is required to manage, for and on behalf of the fiduciary of the Guarantee Trust, the mortgage loans, including the setting up and operating the administrative and operating accounts, pay ordinary expenses and determine principal and interest payments of the bonds, among other duties. This Trust started its operations on September 2016.

The main office of the Fiduciary and manager is located on Vía España, Plaza Regency, 13th floor, Panama City.

The issuance of these financial statements were authorized by the manager of the Trust on March 27, 2018.

## (2) General Terms of the Trust

Below are presented the most important terms of the Décimo Tercer Fideicomiso de Bonos de Préstamos Hipotecarios:

- The Equity of the Trust is an initial contribution of the Trustor of B/.5,000, and any other real estate or fixed asset, tangible or of any other nature, that from time to time be transferred in trust by the trustor, or by third parties, to the Fiduciary.

- The Fiduciary may issue and sell mortgage loan bonds through a public offering up to the amount of forty five million dollars ($45,000,000), legal currency of the United States of America; buy mortgage loans to La Hipotecaria, S. A. de C.V. with funds generated by the sale of mortgage loans bonds and, under these activities, exercise all the functions and responsibilities of the issuer of securities and mortgagee.

- The mortgage loan bonds will be issued in denominations of B/.1,000 or multiples of that amount, nominative and registered, without coupons attached, in three (3) series. The Bonds will be registered with the Superintendence of Securities Market in Panama and will be sold in initial public offerings through the Stock Exchange of Panama or another stock exchange authorized to operate in Panama.

- The mortgage loans bonds will be secured solely by the assets of the Décimo Tercer Fideicomiso de Bonos de Préstamos Hipotecarios and by the Guarantee Trust constituted by the Fiduciary of the Décimo Tercer Fideicomiso de Bonos de Préstamos Hipotecarios, acting as Trustor of the Guarantee Trust, and B. G. Trust Inc. as Fiduciary of the Guarantee Trust, for the benefit of the bondholders whose assets are primarily mortgage loans.

- The Décimo Tercer Fideicomiso de Bonos de Préstamos Hipotecarios will use the proceeds from the placement of bonds mainly to pay to La Hipotecaria, S. A. de C. V. the agreed price for the transfer of residential mortgages or be able to pay that price through the issuance and delivery of the bonds.

- The Fiduciary shall, among other tasks, contract a performance bond in favor of the Fiduciary of the Guarantee Trust, with respect to the registration of the Mortgage Loans in the Land Registries and Mortgages of the Republic of El Salvador, within 180 days from the closing date.

- The maturity of the mortgage loan bonds will be December 31, 2045 or the maturity date of the last mortgage loan, whichever occurs first. The Trust may make partial principal payments quarterly on bonds of Series A and once fully amortized Series A bond's principal will deliver the principal payments for Series B and once fully amortized Series B bond's principal will deliver the principal payments for Series C. Payment of principal of Series A bonds has priority over the payment of principal of the bonds Series B and principal of Series B bonds has priority over the payment of principal of the Series C Bonds.

**(2) General Terms of the Trust, continued**

- The commission received by the Fiduciary for the management of the Trust is calculated on the basis of one point twenty five percent (1.25%) per annum of the unpaid principal balance of the mortgage loans, payable monthly. The commission received by the Fiduciary Guarantee Trust will be calculated based on an annual eighth of one percent (0.125%) of the unpaid principal balance of the mortgage loans, payable monthly. The commission received by the Paying Agent of the Trust will be calculated based on an annual sixteenth of one percent (0.0625%) of the unpaid principal balance of the mortgage loans, payable monthly. During the year ended December 31, 2017, the Trust had paid in fees the amount of B/.626,709 (2016: B/.172,963) to the Fiduciary, the Guarantee Trust's Fiduciary and Paying Agent.

  Besides the management fee, the Manager will receive as compensation for the services provided under the Administration Agreement the amounts debtors pay quarterly as expenses for management under the terms of the loan agreements. In addition to the management fee and commission described above, the manager is entitled to receive (a) from the insurance companies any compensation agreed upon from time to time for the management of insurance policies, (b) the fees paid by customers regarding the renewal or restructuring of its loans agreements and (c) the penalties charged in connection with the late payment of mortgage loans. This commission will be paid directly to the manager by insurance companies or customers, as appropriate.

Ordinary expenses such as administrative expenses, secretarial, accounting, stationery, communications and post, incurred by the manager in the ordinary course of their obligations under the Administration Agreement will be borne by the Manager.

The Trust will remain in effect until the residential mortgage bonds issued and outstanding are redeemed and mortgage loans have been paid in full or have been transferred by the Trust; or if the Trust is terminated by mutual agreement.

La Hipotecaria (Holding) Inc., Banco La Hipotecaria, S. A. , Banco General, S. A., BG Trust, Inc. and their respective shareholders, subsidiaries or affiliates do not guarantee or be liable for the obligations of the Décimo Tercer Fideicomiso de Bonos de Préstamos Hipotecarios including payment of mortgage loan bonds.

Subject to the terms of the Administration Agreement that establishes a priority of payments of the funds available, Banco La Hipotecaria S. A., in its capacity as Issuer the Fiduciary may receive from the Trust a commission equivalent up to forty-five basis points (0.45%) per annum of the unpaid principal balance of the mortgage loans, accrued monthly and payable according to the availability of funds and in accordance with the conditions established in the Administration Agreement and other Agreement Documents. At December 31, 2017, the Trust had not paid commissions to the Fiduciary for this concept. Subject to the terms of the Administration Agreement that establishes a priority of payments of the funds available, Banco La Hipotecaria S. A., as Manager may receive quarterly from the funds in trust an incentive for timely collection equivalent to the amount of funds available after meeting with all other obligations established in the Issuer Trust, and payable only if funds are available and in accordance with the conditions established in the Administration Agreement and other Agreement Documents. At December 31, 2017, the Trust had not paid the manager, incentive fees for timely collection.

## (2) General Terms of the Trust, continued

The income of the Trust allowed to register for the payment of these fees an amount of B/.600,603 (2016: B/.188,471)under accounts payable in the Statement of Financial Position.

## (3) Basis of Preparation

*(a) Statement of Compliance*

The financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS).

*(b) Basis of Measurement*

The financial statements were prepared based on their historical cost.

*(c) Functional and Presentation Currency*

The financial statements are presented in Balboas (B/.), the monetary unit of the Republic of Panama, which is at par and feely exchangeable with the United States of America Dollar (US$). The Republic of Panama doesn't issue its own paper currency and, instead, the dollar (US$) of the United States of America is used as legal tender. The functional currency of the Trust is the Balboa.

## (4) Summary of Significant Accounting Policies

The significant accounting policies summarized as follows have been consistently applied by the Trust for all periods presented in these financial statements.

*(a) 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 principal market participants at the measurement date or, in its absence, the most advantageous market to which the Trust has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Trust 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.

When there is no quoted price in an active market, the Trust 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.

The best evidence of the fair value at inception of a financial instrument is the transaction price.

The fair value of a demand deposit will not be less than the amount due when it becomes payable, discounted from the first date on which the payment may be required.

The Trust recognized transfers between levels of the hierarchy of fair value at the end of the period during which the change occurred.

*(b) Loans*

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and generally originated by providing funds to a debtor on loan. Loans are initially measured at fair value plus origination costs and any subsequent measurement at amortized cost using the effective interest method.

## (4) Summary of Significant Accounting Policies, continued

*(c) Impairment of Assets*

The carrying value of the Trust's assets is reviewed at the statement of financial position date to determine whether there is impairment in its value. If such impairment exists, the recoverable value of the assets is estimated and a loss due to impairment is recognized equal to the difference between the carrying value of the assets and their estimated recovery value. The loss by impairment in the value of an asset is recognized as an expense in the statement of income.

*(d) Impairment of loans*

Management assesses at each reporting date whether there is objective evidence of impairment in a loan or loan portfolio. The amount of losses on certain loans during the period is recognized as provision for loan losses in the statement of income and increases the account of allowance for loan losses. The allowance is presented deducted from loans receivable in the statement of financial position. When a loan is determined to be uncollectible, the unrecoverable amount is deducted from the allowance account, and subsequent recoveries of loans previously written off as uncollectible, increases the allowance account.

Impairment losses are determined using two methodologies to determine whether an objective evidence of impairment exists, individually for the loans that are individually significant and collective for loans that are not individually significant.

*(d.1) Individually Assessed Loans*

Impairment losses on individually assessed loans are determined on an evaluation of the exposures on a case by case basis. If it is determined that no objective evidence of impairment exists for an individually significant loan, it is included in a group of loans with similar characteristics and are collectively assessed for impairment. The impairment loss is calculated by comparing the current value of the expected future cash flows, discounted at the original effective interest rate of the loan, against its current carrying value. Any loss is recognized as provision for loans losses in the statement of income. The carrying amount of impaired loans is reduced through the use of an allowance account.

*(d.2) Collectively Evaluated Loans*

For the purposes of a collective evaluation of impairment, the Trust primarily uses statistical models of historical trends of probability of default, the timing of recoveries and the amount of the loss incurred and makes an adjustment if current economy and credit conditions are such that the actual losses are likely to be greater or less than those suggested by historical trends the default rates, loss rates and the expected term of future recoveries are regularly compared with the actual results to ensure they remain appropriate.

**(4) Summary of Significant Accounting Policies, continued**

*(d.3) Reversal of Impairment*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by reducing the allowance for impairment account. The amount of any reversal is recognized in the statement of income.

*(d.4) Renegotiated or Restructured Loans*

Loans that have been renegotiated or restructured are the ones that a renegotiation or restructuration has been made because of impairment in the borrower's financial condition, and when the Company considers granting some change in the terms of the credit.

*(e) Debt Securities Issued*

The Trust classifies the debt instruments as financial liabilities in accordance with the substance of the instrument's contractual terms.

Debt instruments are measured at inception at its fair value, net of transactions costs, and subsequently measured at its amortized cost, using the effective interest rate method.

*(f) Interest Income and Expense*

Interest income and expenses are generally recognized in the statement of income for all financial instruments measured at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. When calculating the effective interest rate, the Trust estimates cash flows considering all the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Transaction costs are origination costs, directly allocated to the acquisition, issuance or deposition of an asset or liability.

*(g) Foreclosed assets for sale*

Foreclosed assets for sale are recognized at the lower of carrying value of the outstanding loans and the estimated realizable market value of the properties. Management has judged necessary, as applicable, to maintain a reserve against any significant impairment loss affecting the properties unsold. The provision for impairment is recognized in the statement of income.

*(h) New International Financial Reporting Standards (IFRS) and Interpretations not yet Adopted*

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

**(4) Summary of Significant Accounting Policies, continued**

IFRS 9 is effective for annual periods beginning on January 1, 2018.

*I. IFRS 9 - Implementation strategy*

The Trust's process of implementing IFRS 9 is governed by a Committee whose members include representatives from the areas of risk, finance, operations and information technology (IT) functions of the Fiduciary. This Committee met during the year 2017, to challenge the key assumptions, make decisions and monitor the progress of implementation at all levels of the Trust, including the evaluation of the sufficiency of resources.

The Trust has completed a preliminary impact assessment and accounting analysis; and has completed the work on the design and development of models, systems, processes and controls.

*II. Classification and measurement - Financial assets*

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

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

The standard eliminates the existing categories of IAS 39 of held-to-maturity, loans and receivables and investments available for sale.

A financial asset is measured at amortized cost and not at fair value through profit or loss if it complies with both of the following conditions:

1. The asset is maintained within a business model whose objective is to maintain assets to obtain contractual cash flows; and
2. The contractual terms of the financial asset establish specific dates for the cash flows derived only from payments to principal and interest on the outstanding balance.

A debt instrument is measured at FVOCI only if it complies with both of the following conditions and has not been designated as a FVTPL:

1. The asset is maintained within a business model whose objective is achieved by collecting contractual cash flows and selling these financial assets; and;
2. The contractual terms of the financial asset set specific dates for the cash flows derived only from payments of principal and interest on the current balance.

**(4) Summary of Significant Accounting Policies, continued**

During the initial recognition of investments in equity instruments not held for trading, the Trust may irrevocably elect to record the subsequent changes in fair value as part of the other comprehensive income. This choice must be made on an instrument-by-instrument basis.

All other financial assets will be measured at fair value through profit or loss.

Additionally, in the initial recognition, the Trust can irrevocably designate a financial asset that meets the measurement requirements to AC or FVOCI to be measured to FVTPL if doing so eliminates or significantly reduces an accounting asymmetry that could occur from do what.

A financial asset is classified in one of the categories mentioned in its initial recognition. However, for financial assets held at the time of initial application, the evaluation of the business model is based on facts and circumstances to date. Additionally, IFRS 9 allows new elective designations to FVTPL or FVOCI to be made on the date of initial application and allows or requires revocation of prior FVTPL elections on the date of initial application depending on the facts and circumstances as of that date.

Under IFRS 9, derivatives embedded in contracts in which the host is a financial asset within the scope of the standard are never bifurcated. Instead, the classification of the hybrid financial instrument taken as a whole is evaluated.

*Evaluation of the business model*

The Trust made an assessment of the objective of the business model in which financial instruments are maintained at the portfolio level to reflect, in the best way, the way in which the business is managed and in which the information is provided to management. The information that was considered included:

- The policies and objectives indicated for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on collecting revenue from contractual interests, maintaining a specific interest rate profile or coordinating the duration of the financial assets with the liabilities that said assets are financing or the expected cash outflows or realize cash flows through the sale of the assets;

- How key personnel of the Trust's management are evaluated and reported on the performance of the portfolio;

- The risks that affect the performance of the business model (and the financial assets held in the business model) and the way in which such risks are managed;

- How the business managers are remunerated (for example, if the compensation is based on the fair value of the assets under management or on the contractual cash flows obtained); and

**(4) Summary of Significant Accounting Policies, continued**

- The frequency, value and timing of sales in previous periods, the reasons for those sales and expectations about future sales activity.

Financial assets that are held or managed for trading and whose performance is evaluated on a fair value basis, are measured at fair value through profit or loss because they are not maintained to collect contractual cash flows or to obtain contractual cash flows and sell these financial assets.

*Evaluation if the contractual cash flows are only principal and interest payments*
For the purpose of this evaluation, "principal" is defined as the fair value of the financial asset at the time of initial recognition. "Interest" is defined as the consideration of the value of money over time and the credit risk associated with the amount of the principal in force for a particular period of time and other basic risks of a loan agreement and other associated costs (ex. liquidity risk and administrative costs), as well as the profit margin.

When evaluating whether the contractual cash flows are only principal and interest payments, the Trust will consider the contractual terms of the instrument. This will include the evaluation to determine if the financial asset contains a contractual term that could change the period or amount of the contractual cash flows in such a way that it does not comply with this condition. In making this evaluation, the Trust will consider:

- Contingent events that will change the amount and periodicity of cash flows;
- Leverage conditions;
- Terms of advance payment and extension;
- Terms that limit the Trust to obtain cash flows from specific assets (eg asset agreements without resources);
- Characteristics that modify considerations for the value of money over time eg. periodic review of interest rates.
- Investments in securities held to maturity measured at amortized cost under IAS 39 will generally maintain this measurement under IFRS 9.
- Instruments in securities measured at FVTPL under IAS 39 will generally maintain this measurement under IFRS 9; and
- Investments in equity classified as available for sale under IAS 39 will generally be measured at FVTPL under IFRS 9.

*Preliminary impact assessment*
Based on the preliminary high-level evaluation of possible changes in classification and measurement of financial assets held as of December 31, 2017, we can determine that the bank loans and deposits that are classified as loans and accounts receivable and measured at amortized cost under IAS 39 will generally maintain this measurement under IFRS 9.

The previous assessment is preliminary and may change due to IFRS 9 will require the Trust to review its accounting processes, policies and internal controls and these changes have not yet been completed.

## (4) Summary of Significant Accounting Policies, continued

*III. Impairment of financial assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a model of 'expected credit loss' (ECL).

This will require that considerable judgment be applied regarding how changes in economic factors affect the ECL, which will be determined on a weighted average basis.

The new impairment model will be applicable to the following financial assets that are not measured at FVTPL:

- Debt instruments;
- Loan commitments issued.

No impairment loss will be recognized on investments in equity instruments.

Under IFRS 9, allowances for losses will be recognized at an amount equal to the ECL for the life of the asset, except in the following cases in which the amount recognized is equivalent to a 12-month ECL:

- Investments in debt instruments that are determined to reflect low credit risk at the reporting date; and
- Other financial instruments over which the credit risk has not increased significantly since its initial recognition.

The assessment of whether there has been a significant increase in the credit risk of a financial asset is one of the critical judgments implemented in the impairment model of IFRS 9.

The 12-month ECL is the portion of the ECL that results from loss events on a financial instrument that are possible within a period of 12 months after the reporting date.

*Measurement of the ECL*

The ECL is the estimated weighted probability of credit loss and is measured as follows:

- Financial assets that do not show credit impairment as of the reporting date: the present value of all arrears of cash contractual payments (eg, the difference between the cash flows owed to the Trust according to the contract and the cash flows that the Trust expects to receive);
- Financial assets that are impaired at the reporting date: the difference between the book value and the present value of the estimated future cash flows;
- Outstanding loan commitments: the present value of the difference between the contractual cash flows that are owed to the Trust in the event that the commitment is executed and the cash flows that the Trust expects to receive;

## (4) Summary of Significant Accounting Policies, continued

Financial assets that are impaired are defined by IFRS 9 in a manner similar to financial assets impaired under IAS 39.

*Definition of loss*
Under IFRS 9, the Trust will consider a financial asset in default when:

- It is unlikely that the debtor fully pays its credit obligations to the Trust, with no course of action on the part of the Trust to take the collateral (in the case they maintain); or

- The debtor has more than 90 days delinquency in personal loans and more than 180 days in mortgage loans.

When evaluating if a debtor is in default, the Trust will consider indicators that are:

- Qualitative - Breach of contractual clauses

- Quantitative - Non-payment and delinquency status over other obligations of the same issuer. The Trust is developing a qualification model that is expected to be ready between 2019 and 2020.

The inputs used in the evaluation of whether the financial instruments are in default and their importance may vary over time to reflect changes in circumstances and the effects that may have the results of the maturation of the rating model.

*Significant Increase in Credit Risk*
Under IFRS 9, when determining whether the credit risk of a financial asset has increased significantly since its initial recognition, the Trust will consider reasonable and sustainable information that is relevant and available without cost or disproportionate effort.

The Trust expects to identify if there has been a significant increase in credit risk for exposure as follows:

- For loans, the delinquency status is used as a criterion for a significant increase in risk. The Trust is developing a qualification model that is expected to be ready between 2019 and 2020.

- Changes in the risk rating of the financial instrument are used for investments.

*Credit Risk Rating*
The Trust will allocate each exposure to a credit risk rating based on a variety of data that is determined to be predictive of the probability of default (PD) due to delinquency obtained by transition matrices and will be incorporating the qualitative variables to strengthen the model. The Trust expects to use these ratings for purposes of identifying significant increases in credit risk under IFRS 9. Credit risk ratings are defined using factors that are indicative of the risk of loss.

**(4) Summary of Significant Accounting Policies, continued**

*Generating the term structure of the PD*
Credit risk ratings are expected to be the main input to determine the IP term structure for the different exposures. The Trust intends to obtain performance and loss information on the credit risk exposures analyzed by country, type of product (with or without guarantee) and debtor as well as credit risk rating.

The Trust designed and tested statistical models to analyze the data collected and generate estimates of the PD through multiple transition matrices, about the remaining life of the exposures and how they are expected to change over time.

It is expected that this analysis includes the identification and calibration of relationships between changes in the rate of loss and changes in key macroeconomic factors, as well as an analysis of the impact of other factors on the risk of loss. For most exposures, key macroeconomic indicators generally include: IMAE, unemployment rate, GDP, among other variables.

The Trust intends to formulate a "case by case" view of the future projections of the relevant economic variables as well as a representative range of other projection scenarios based on the recommendations of the Trust's Risk Committee and experts in economics, taking into consideration a variety of current and projected external information. The Trust plans to use these projections to adjust its PD estimates.

*Determine if the credit risk has increased significantly*
The criteria to determine if the credit risk has increased significantly varies depending on the portfolio and should include quantitative changes in the PD, including limits based on delinquency for loans and risk rating of the financial instruments of the investments.

In certain instances, using its expert judgment and, as far as possible, relevant historical experience, the Trust may determine that an exposure has significantly increased its credit risk based on particular qualitative indicators that it considers are indicative of this and whose effect would not be fully reflected otherwise by means of a timely quantitative analysis.

As a limit, and as required by IFRS 9, the Trust will presumably consider that a significant increase in credit risk occurs no later than when an asset shows delinquency for more than 90 days for the unsecured segment and 180 days for the mortgage guaranteed segment.

The Trust intends to monitor the effectiveness of the criteria used to identify significant increases in credit risk through regular reviews that confirm:

- The criteria are able to identify significant increases in credit risk before an exposure is in default;
- There is no unforeseen volatility in the loan reserve derived from transfers between the 12-month PD (stage 1) and PD over the life of the instrument (stage 2).

**(4) Summary of Significant Accounting Policies, continued**

*Inputs in the measurement of ECL*

The key inputs in the ECL measurement are usually the term structures of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure to default (EAD)

In general, the Trust expects to derive these parameters from internal statistical models and other historical data. They will be adjusted to reflect information with future projection as described above.

*Inputs in the measurement of ECL*

The PD estimates are made at a certain date, in which the Trust expects to calculate the statistical models of rating, and evaluated using rating tools appropriate to the different categories of counterparty and exposure. It is expected that these statistical models are based on internally compiled data composed of both qualitative and quantitative factors. Market information, if it is available. If a counterpart or exposure migrates between rating categories, then this will result in the associated PD estimate instead. The PD will be estimated considering the contractual maturities of the exposures and the estimated prepayment rates.

The LGD is the magnitude of the loss given an event of default. The Trust plans to estimate the parameters of the LGD based on a historical rate of recovery of claims against counterparties in default. It is expected that the LGD models consider the structure, collateral, level of preference of the claim, counterpart industry and recovery costs of any comprehensive guarantee for the financial asset. The Trust calculates the LGD taking into account all the historical records of recoveries and expenses associated with these recoveries depending on the year in which the exposure occurred. These will be calculated on a discounted cash flow basis using the opportunity cost rate of the loans as a discount factor. The LGD may differ from the figures used for regulatory purposes. The main differences are related to: the elimination of regulatory impositions and calibration assumptions in cases of recession, inclusion of information with future projections and the use of multiple economic scenarios and the discount rate used.

The EAD represents the expected exposure in the event of default. The Trust expects to determine the EAD from the current exposure to the counterparty and the potential changes to the current figure allowed under contract, including any amortization. The LGD of a financial asset will be the gross book value at the time of default. For some financial assets, the Trust expects to determine LGD by means of a model of ranges of possible exposure results at various points in time using scenarios and statistical techniques. The LGD may differ from that used for regulatory purposes.

**(4) Summary of Significant Accounting Policies, continued**

*Projection of future conditions*

Under IFRS 9, the Trust will incorporate information with projections of future conditions both in its evaluation of whether the credit risk of an instrument has increased significantly since its initial recognition and in its measurement of ECL. Based on the recommendations of the Trust's Risk Committee, economic experts and consideration of a variety of current and projected external information.

The Trust intends to formulate a projection of the relevant economic variables as well as a representative range of other possible projected scenarios. This process involves the development of two or more additional economic scenarios and considers the relative probabilities of each result.

The external information may include economic data and publish projections by government bodies and monetary authorities in the countries in which the Trust operates, supranational organizations such as the OECD and the International Monetary Fund, and academic and private sector projections.

It is expected that the base case represents the most probable outcome and aligned with the information used by the Trust for other purposes, such as strategic planning and budget. The other scenarios would represent a more optimistic and pessimistic result.

The Trust is in the process of identifying and documenting key credit risk and credit loss guidelines for each financial instrument portfolio and, using an analysis of historical data, to estimate the relationships between macroeconomic variables, credit risk and credit losses.

*Preliminary impact evaluation*

The most significant impact on the Group's financial statements caused by the implementation of IFRS 9 are the new impairment requirements.

The Trust considers that impairment losses are likely to increase and become more volatile for the instruments under the new methodology of expected credit losses of IFRS 9.

The Trust's preliminary assessment indicates that the allowance for loan losses calculated as of January 1, 2018 with the application of the impairment requirements of IFRS 9 will be between 0.030% a 0.050% in relation to the total loan portfolio, under IAS 39 this ratio is 0.007% as of December 31, 2017.

The previous evaluation is preliminary and may change due to:

- IFRS 9 will require the Trust to review its accounting processes, policies and internal controls and these changes have not yet been completed.

- The Trust is completing the definition of loss.

## (4) Summary of Significant Accounting Policies, continued

- The term for the estimation of the PD lifetime is subject to the results of the maturity of the portfolios.

- The qualitative factors to be incorporated into the Trust's allowance models are in the process of being defined.

The new accounting policies, assumptions and judgments are subject to change until the Trust prepares its first annual financial statements as of December 31, 2018, which will include the initial application date.

*IV. Classification - Financial liabilities*
IFRS 9 largely preserves the existing requirements of IAS 39 for the classification of financial liabilities.

However, under IAS 39 all changes in the fair value of liabilities designated as a FVTPL are recognized in income, whereas under IFRS 9 these changes in fair value are generally presented as follows:

- The amount of the change in fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and

- The remaining amount of the change in fair value is presented in income statement.

The Trust has not designated any liabilities to FVTPL and does not intend to do so. The Trust's preliminary assessment 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.

*V. Hedge accounting*
When initially applying IFRS 9, the Trust may choose as an accounting policy to continue applying the hedge accounting requirements of IAS 39 instead of those included in IFRS 9. The Trust currently does not maintain hedge accounting.

*VI. Disclosures*
IFRS 9 will require extensive new disclosures on credit risk and expected credit losses. The Trust plans to implement the changes in the system and the controls it believes will be necessary to capture the required data, before the issuance of the first financial statement that includes IFRS 9.

*VII. Impact on capital planning*
The main impact on the regulatory capital of the Trust arises from the new requirements for the impairment of IFRS 9, which is affected through the profits not distributed in the primary capital.

## (4) Summary of Significant Accounting Policies, continued

*VIII. Transition*

Changes in accounting policies that result from the adoption of IFRS 9 will generally be applied retrospectively, with the exception of the following:

The Trust plans to take advantage of the exemption that allows it not to express the comparative information of previous periods in terms of classification and measurement changes (including impairment). The differences in the carrying amounts of financial assets and liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as of January 1, 2018.

- IFRS 15 "Revenue from Contracts with Customers". This Standard establishes a conceptual framework to determine when and how much revenue is recognized. This Standard replaces the existing guidelines, including IAS 18 "Revenue from Ordinary Activities", IAS 11 "Construction Contracts" and the interpretation of the Interpretations Committee of the International Financial Reporting Standards ("IFRIC") 13 "Loyalty Programs of Customers". IFRS 15 enters into force for annual periods beginning on January 1, 2018, early adoption is permitted. The Trust is carrying out an initial review of the potential impact of the adoption of IFRS 15 in its financial statements. This assessment comprised a commission fees review, due to the income from financial instruments are not under scope of IFRS 15.

  Initial review indicates that the IFRS 15 will not have an impact on the initial recognition.

- IFRS 16 "Leases". On January 13, 2016, IFRS 16 "Leases", which replaces the current, IAS 17 "Leases" was issued. IFRS 16 eliminates classification of leases either as operating leases or finance leases for the lessee. Instead, all leases are recognized similarly to finance leases under IAS 17. Leases are measured at the present value of future lease payments and are presented as either leased assets (right of use assets) or along with property, furniture and equipment. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that also adopt IFRS 15 "Revenue from Contracts with Customers".

  Due to the nature of the financial operations maintained by the Trust, the adoption of these standards could have a significant impact on the financial statements, an aspect that is under evaluation by the administration.

## (5) Use of Estimates and Judgments in Applying Accounting Policies

Management of the Trust in the preparation of financial statements in accordance with International Financial Reporting Standards has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses during the period. Actual results may differ from these estimates.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**(5) Use of Estimates and Judgments in Applying Accounting Policies, continued**

Information relating to significant areas of uncertainty in the estimates and critical judgments in applying accounting policies that have an effect on the amounts recognized in the financial statements are included in Note 4 (a) and 4 (d).

**(6) Financial Risk Management**

A financial instrument is any contract that originates a financial asset in one entity and a financial liability or equity instrument in another entity. The statement of financial position is comprised mainly of financial instruments.

The Manager of the Trust is responsible for establishing and overseeing the risk management policies of financial instruments. For this purpose, it has created certain controls for management regular monitoring of risks to which the Trust is exposed.

These instruments expose bondholders to various types of risks. The main risks identified by the Fiduciary are credit risk, market and liquidity.

*(a) Credit Risk*

Is the risk that the debtor, issuer or counterpart of a financial asset owned by the Trust does not fully and timely comply with any payment due to the Trust, in conformity with the agreed upon terms and conditions, when the financial asset was acquired or originated by the Trust.

The management of the Trust meets monthly to evaluate credit profiles of customers who have fallen into arrears during the month immediately preceding the date of the meeting. The purpose of this meeting is to assess trends and customer behaviors that have fallen into arrears and make the necessary arrangements based on credit policies of the manager.

The following table analyzes the financial instruments of the Trust is exposed to credit risk and the related evaluation:

| | **Loans** | |
|---|---|---|
| | **2017** | **2016** |
| Book value | 41,707,860 | 44,134,752 |
| **At amortized cost** | | |
| Grade 1: Current balance | 41,124,717 | 44,011,565 |
| **Arrears without impairment:** | | |
| Grade 2: Low risk | | |
| 31 – 60 days | 256,696 | 76,245 |
| Grade 3 to 5: Watch list | | |
| 61 – 90 days | 199,422 | 46,942 |
| 91 – 120 days | 58,992 | 0 |
| 121 – 150 days | 7,733 | 0 |
| 151 – 180 days | 10,620 | 0 |
| Book value | 533,463 | 123,187 |
| **Individually impaired** | | |
| Grade 6: | | |
| More than 180 days | 52,686 | 0 |
| Individual allowance | 3,006 | 0 |

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

Management classifies in 6 risk grades their loans as follows:

Grade 1: Loans with current balances
Grade 2: Loans with arrears from 31 to 60 days
Grade 3: Loans with arrears from 61 to 90 days
Grade 4: Loans with arrears from 91 to 120 days
Grade 5: Loans with arrears from 121 to 180 days
Grade 6: Loans with arrears more than 180 days

As detailed in the preceding table, the factors of major exposure of risk and information on the impaired assets, and the assumptions used for these disclosures are the following:

- Impairment of loans:
  Impairment of loans is determined considering the amount of principal and interest, in accordance with the contractual terms of the loans. These loans are evaluated at grade 6 which is the evaluation system of credit risk of the Trust.

- In arrears without loans impairment:
  Loans where their contractual payments of capital and interests are in arrears, but contractually the Trust does not consider an impairment loss based on the level of loans guaranty available on the amount owed to the Trust. Generally, loans under this condition are classified in grade 2 to 5.

- Allowance for impariment:
  Management establishes reserves for impairment, which represents an estimate of incurred losses in the loan portfolio. The main components of this allowance are related to individual risks.

- Write - offs policy:
  Management determines the write off of a group of loans that are considered uncollectible, this determination is made after an analysis of the financial conditions since the payment default and when it is determined that the guarantee is not sufficient for the full payment of the loan granted. For smaller loans, write-offs are generally based on the time in delinquency of the loan granted.

Management maintains collaterals on loans granted to customers for mortgages on properties. The estimation of the collateral's fair value is based in the market value; at inception date of the mortgage and generally they are not updated except if the credit is individually impaired.

As of December 31, 2017, the estimated value of the collateral mortgage on properties amounted to B/.53,896,997 (2016: B/.55,993,650).

Trust's mortgage loans are concentrated geographically in the Republic of El Salvador.

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

*Deposits placed with Banks*

At December 31, 2017, the Trust held deposits placed with banks for B/.453,644 (2016: B/.479,459). These deposits are held with a financial institution that is rated BBB+, based on Fitch Ratings Inc.

*Residential mortgage loans*

The tables below stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The gross amounts exclude any impairment allowance. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination and generally is not updated.

| LTV ranges | 2017 | 2016 |
|---|---|---|
| 0-20% | 70,787 | 54,968 |
| 21-40% | 344,604 | 390,716 |
| 41-60% | 2,375,331 | 2,164,530 |
| 61-80% | 13,198,696 | 10,881,146 |
| 81-100% | 25,721,448 | 30,643,392 |
| Total | 41,710,866 | 44,134,752 |

(b) *Liquidity risk:*

The liquidity risk is defined as the inability of the Trust to comply with all its obligations because of, among other reasons, the impairment of the quality of the loans portfolio, the devaluation of securities, the excessive concentration of liabilities from one particular source, a gap between assets and liabilities, a shortage of asset liquidity, or financing of long-term assets with short-term liabilities.

Liquidity Risk Management

The Trust mitigates its liquidity risk, according to their maturity structure of liabilities for periods compatible with the maturities of its assets.

The table below analyzes the undiscounted cash flows of the financial assets and liabilities of the Trust and loan commitments non-recognized with respect to the contractual maturity date.

| 2017 | Carrying Amount | Gross nominal (outflow)/inflow | Up to 1 year | From 1 to 5 years | From 5 to 10 years | More than 10 years |
|---|---|---|---|---|---|---|
| **Financial Liabilities:** | | | | | | |
| Bonds payable | 41,488,550 | (53,106,949) | (5,239,258) | (18,478,352) | (18,225,656) | (11,163,683) |
| **Total financial liabilities** | 41,488,550 | (53,106,949) | (5,239,258) | (18,478,352) | (18,225,656) | (11,163,683) |
| **Financial Assets** | | | | | | |
| Cash in banks | 453,644 | 453,644 | 453,644 | 0 | 0 | 0 |
| Residential mortgage loans, net | 41,707,860 | 104,322,987 | 4,548,580 | 18,178,163 | 22,487,797 | 59,108,447 |
| **Total financial assets** | 42,161,504 | 104,776,631 | 5,002,224 | 18,178,163 | 22,487,797 | 59,108,447 |

## (6) Financial Risk Management, continued

| 2016 | Carrying Amount | Gross nominal (outflow)/inflow | Up to 1 year | From 1 to 5 years | From 5 to 10 years | More than 10 years |
|---|---|---|---|---|---|---|
| **Financial Liabilities:** | | | | | | |
| Bonds payable | 44,318,670 | (62,423,238) | (5,023,959) | (19,487,118) | (17,517,477) | (20,394,684) |
| **Total financial liabilities** | 44,318,670 | (62,423,238) | (5,023,959) | (19,487,118) | (17,517,477) | (20,394,684) |
| **Financial Assests** | | | | | | |
| Cash in banks | 479,459 | 479,459 | 479,459 | 0 | 0 | 0 |
| Residential mortgage loans, net | 44,134,752 | 111,342,297 | 4,726,050 | 18,896,280 | 23,430,976 | 64,288,991 |
| **Total financial assets** | 44,614,211 | 111,821,756 | 5,205,509 | 18,896,280 | 23,430,976 | 64,288,991 |

Loans receivables for B/.41,710,866 (2016: B/.44,134,752), are totally pledge as guarantee of the bonds payable issued by the Trust.

(c) *Market Risk:*
It is the risk that the value of a financial asset is reduced as a result of changes in interest rates, in monetary exchange rates, stock prices and other financial variables, as well as the reaction of market participants to political and economic events.

The Trust has no assets nor liabilities in other currencies different to its functional currency, therefore the Trust has no exchange rate risk.

*Cash Flow's Interest Rate Risk*
The interest rate risk of the cash flow is the risk of fluctuation of the future cash flows and the value of a financial instrument due to changes in market interest rates. The interest rate risk of the fair value is the risk of fluctuation of a financial instrument's value due to changes in interest market rates.

Management reviews monthly performance of interest rates of assets and liabilities, measures the impact of mismatch on the results of the Trust and takes appropriate measures to minimize negative impact on the financial results of the Trust.

The basic analysis carried out every month by management consists in determining the impact caused on financial assets and liabilities by increases or decreases of 25 and 50 basis points in interest rates, considering as a premise, the minimum rate of 0.005% in cases that their results yield negative values to raise the actual values. The impact is summarized as follows:

| | Increase of 25 bp | Decrease of 25 bp | Increase of 50 bp | Decrease of 50 bp |
|---|---|---|---|---|
| **Sensitivity of projected net interest income** | | | | |
| 2017 | 1,754 | (1,754) | 3,508 | (2,310) |
| 2016 | 739 | (739) | 1,477 | (279) |
| **Sensitivity of projected net equity** | | | | |
| 2017 | 1,754 | (1,754) | 3,508 | (2,310) |
| 2016 | 739 | (739) | 1,477 | (279) |

## (6) Financial Risk Management, continued

The Trust mitigates significantly its exposure to the effects of fluctuations in interest rates, as a result of which the rates of the assets and the rates of its liabilities are variable and respond to the market movement.

(d) *Capital management:*
As of December 31, 2017, the Trust maintains primary capital of B/.5,000. La Hipotecaria (Holding) Inc., Banco La Hipotecaria S. A., Banco General, S. A., B.G. Trust, Inc. and their respective shareholders, subsidiaries or affiliates do not guarantee or are liable for the obligations, residual profits or losses of the Décimo Tercer Fideicomiso de Bonos de Préstamos Hipotecarios including the payment of mortgage loan bonds. According to the terms and conditions of the Trust, in case of financial loss, the bondholders may be affected in the payment of interest and principal.

## (7) Cash in Banks

As of December 31, 2017, the Trust held savings accounts at a local bank, with a balance of B/.453,644 (2016: B/.479,459), bearing interest of 0.25% per annum on the average balance.

## (8) Residential Mortgage Loans

The group of mortgages which comprised the Trust consists of 1,214 (2016: 1,259) residential mortgage loans, whose original disbursements amounted on B/.45,854,450 (2016: B/.47,581,556), which at December 31, 2017 had an outstanding principal balance of B/.41,710,866 (2016: B/.44,134,752).

Residential mortgage loans have maturities from December 17, 2019 to December 20, 2036. At December 31, 2017, the range of interest rates of the mortgage loans portfolio ranges from 6.65% to 10.50% (2016: 7.43% to 10.75%).

The movements of the allowance for loan losses are detailed as follows:

| | 2017 |
|---|---|
| Balance at the beginning of the year | 0 |
| Reversal of provision for loan losses | 3,006 |
| Balance at the end of the year | 3,006 |

## (9) Bonds Payable

On September 26, 2016, the Trust issued three series of mortgage bonds for a total of B/.45,000,000: Series A mortgage bonds with a par value of B/.39,600,000, Series B mortgage bonds for B/.4,500,000 and Series C mortgage bonds B/.900,000. These bonds were issued in nominative form and registered without coupons attached, in amounts of B/.1,000 or multiples of that amount. The maturity of the bonds are December 31, 2045 or the maturity of the last mortgage loan, whichever occurs first.

## (9) Bonds Payable, continued

The interest rate established for mortgage bonds is as follows:

Series A Bonds: Series A bonds bear interest at the fixed annual rate of 4.65%. Bonds Series A will pay interest monthly at eighth day (8) of each month or the first working day after the eighth day (8) of each month ("Payment Date") until the date of maturity. If a Payment Date is not a business day, such Payment Date shall be extended to the business day immediately following, but without affecting the Payment Calculation Date, the accumulation period or the Payment Date in order to calculate the amount of interest to be paid to the Holder. At December 31, 2017 the interest rate paid was 4.65%.

Series B Bonds: Series B bonds bear interest at the fixed annual rate of 6.50%. Bonds Series B will pay interest monthly at eighth day (8) of each month or the first working day after the eighth day (8) of each month ("Payment Date") until the date of maturity. If a Payment Date is not a business day, such Payment Date shall be extended to the business day immediately following, but without affecting the Payment Calculation Date, the accumulation period or the Payment Date in order to calculate the amount of interest to be paid to the Holder. At December 31, 2017 the interest rate paid was 6.50% (2016: 6.50%).

Series C Bonds: The Series C bonds bear interest at a fixed annual interest rate of 8.50%. In any Payment Calculation Date, Series C bondholders have the right to monthly receive, every payment date, an amount (each, a "Series C interest payment"), from the available funds, such amount is subordinated to the interest payment of the Series A and Series B bonds.

Principal and interest payments of Series A bonds has privilege over principal and interest payments of Series B bonds.

The balance of Series A bonds payable is B/.36,424,615 (2016: B/.39,068,670) and B/.4,163,935 (2016: B/.4,500,000) for Series B bonds and B/.900,000 (2016: B/.750,000) for Series C bonds.

## (10) Interest Payable

The Trust kept interest payable on the Series A bonds for B/.141,145 (2016: B/.85,459), interest payable on Series B bonds for B/.22,555 (2016: B/.13,813), and interest payable on Series C bonds for B/.6,375 (2016: B/.20,400).

## (11) Taxes

According to Panamanian Tax Law, the Trust is not subject to pay income tax for its earnings due to it exclusively manage, from an office established in Panama, operations that take place abroad, therefore, most of its earnings are from foreign source. In addition, income provided by time deposits in banks operating in Panama are exempt of income tax.

## (12) Transaction with the Fiduciary

The Trust has incurred in transactions in the ordinary course of business with its Fiduciary. At December 31, 2017, the following were the balances and aggregate results regarding these transactions:

| | 2017 | 2016 |
|---|---|---|
| Bonds payable | 6,885,186 | 7,345,934 |
| Interest payable | 36,093 | 21,698 |
| Account payable | 603,603 | 188,471 |
| Interest expense on bonds | 380,084 | 122,805 |
| Commisions | 1,037,169 | 377,914 |

## (13) Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities traded in active markets are based on quoted prices in markets or quoted prices with dealers. For all other financial instruments, the Trust determined the fair value using other valuation techniques.

For financial instruments that are traded infrequently and have little price information available, the fair value is less objective, and its determination requires the use of varying degrees of judgment dependent on liquidity, concentration, uncertainty of market factors, assumptions in the determination of prices and other risks affecting the specific instrument.

The Trust measures the fair value using the following levels of hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities to which the Trust may access at the measurement date.

- 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.

Other valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. The assumptions and inputs used in valuation techniques include free reference rate risk, credit spreads and other assumptions used in estimating discount rates.

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

The objective of a valuation technique it to arrive at a fair value measurement that affects the price that would be received to sell the assets or paid to transfer the liability in a orderly transaction between market participants at the measurement date.

The fair value and carrying amount of financial assets and liabilities not measured at fair value are as follow:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Financial assets:** | | | | |
| Residential mortgage loans, net | 41,707,860 | 40,751,918 | 44,134,752 | 41,123,475 |
| **Financial liabilities:** | | | | |
| Bonds payable | 41,488,550 | 41,842,222 | 44,318,670 | 44,476,788 |

As of December 31, 2017, these instruments are classified as level 3 if the fair value hierarchy, based on the inputs and valuation techniques used.

The table below describes the valuation techniques and inputs data used in fair value measurements of financial instruments not measured at fair value classified in levels 3:

| Financial Instruments | Valuation Techniques and Data Used Posts |
|---|---|
| Residential mortgage loans | The fair value of loans represents the discounted amount of estimated future cash flows to be received. Provided cash flows are discounted at current market rates to determine fair value. |
| Bonds payable | The fair value of mortgage loan bonds payable represents the discounted cash flow at current market rates. |