DECIMO 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, 2016

(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)

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

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FREE ENGLISH LANGUAGE TRANSLATION OF 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, 2016, the statements of profit or loss and comprehensive 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, 2016, 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.

Allowance for loan losses
See notes 4(d), 6 and 8 to the financial statements

Key audit matter	How the key matter was addressed by the 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. 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. The impairment collective allowance is determined in accordance to the grouping of loans with similar credit risk characteristics.	Our audit procedures included: • Control tests over the delinquent assessment, customers' internal risk ratings, annual review of loans, customers' risk review, models and methodologies used. • For a sample of loans, a test of the credit files of such customers and review of the allowance estimate assessment prepared by Fiduciary. • For individual allowance model, a test of the cash flows' calculation considering the value of the collateral in reference to specialists developed valuations. • Tests of the key inputs used in to calculate the collective impairment allowance model. • 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. • Assessment of the delinquency profiles for personal and mortgage loans. • 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 29, 2017

DECIMO 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, 2016

(Amount in Balboas)

Assets	**Note**	**2016**
Cash in banks	7	479,459
Residential mortgage loans, net	8	44,134,752
Interest receivable		72,963
Total assets		44,687,174
Liabilities and Equity		
Bonds payable	9, 12	44,318,670
Interest payable	10, 12	119,672
Account payable	12	243,832
Total liabilities		44,682,174
Equity	2	5,000
Total liabilities and equity		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.

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

Statement of Income

For the year ended December 31, 2016

(Amount in Balboas)

	Note	2016
Interest income:		
Loans		899,699
Deposits in bank		356
Total interest income		900,055
Interest expense on bonds	12	586,496
Net interest income before provision		313,559
Provision for loan losses	8	0
Net interest income, after provision		313,559
Other income		48,508
Operating expenses:		
Commissions	2	172,963
Other		189,104
Total operating expenses		362,067
Excess of income over expenses		0

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

DECIMO TERCER FIDEICOMISO DE BONOS DE PRÉSTAMOS HIPOTECARIOS

(with Banco La Hipotecaria, S. A., acting as Fiduciary)

(Panama, Republic of Panama)

Statement of Changes in Equity

For the year ended December 31, 2016

(Amount in Balboas)

	2016
Equity:	
Balance at the beginning of the year	0
Initial contribution	5,000
Balance at the end of the year	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.

DECIMO TERCER FIDEICOMISO DE BONOS DE PRÉSTAMOS HIPOTECARIOS
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Statement of Cash Flow

For the year ended December 31, 2016

(Amount in Balboas)

	2016
Operating activities:	
Adjustments to reconcile net income to net cash from operating activities:	
Interest income	(900,055)
Interest expense	586,496
Changes in operating assets and liabilities:	
Residential mortgage loans	(44,134,752)
Accounts payable	243,832
Cash provided by operations:	
Interest received	827,092
Interest paid	(466,824)
Cash flows from operating activities	(43,844,211)
Financing activities:	
Bonds payable	44,318,670
Equity contribution	5,000
Cash flows from financing activities	44,323,670
Net increase on cash	479,459
Cash at the beginning of the year	0
Cash at the end of the year	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 stockholders of La Hipotecaria (Holding), Inc. are Grupo ASSA, S. A. with a 69.01%.

Banco La Hipotecaria, S. A., ("the Bank") previously La Hipotecaria, S. A., 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 Trustee and Trustor 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. is the Fiduciary of Guarantee Trust, La Hipotecaria, S. A. de C. V. (El Salvador) is the manager in the Guarantee Trust and Banco General, S. A. in 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 at 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, 2017.

(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 $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. At December 31, 2016, the Trust had paid in fees the amount of 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 of the Trust.

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, 2016, the Trust had not paid commissions to the Fiduciary. 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, 2016, the Trust had not paid the manager, incentive fees for timely collection.

(2) General Terms of the Trust, continued

The Trust recorded for the payment of these fees the amount of 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) issued by the International Accounting Standards Board.

(b) Basis of Measurement

The financial statements were prepared based on their historical cost.

(c) Functional Currency and Presentation

The financial statements are expressed in Balboa (B/.), which is at par and feely exchangeable with the United States of America Dollar (US$). The Republic of Panama doesn't issue its own paper money and, instead, the dollar (US$) 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 market participants at the measurement date in the principal 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, then 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.

(4) Summary of Significant Accounting Policies, continued

(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.

(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 evidence of impairment. If such impairment exists, the recoverable value of the assets is considered and a loss due to impairment is recognized equal to the difference between the carrying value of the assets and their considered value of recovery. The loss by impairment in the value of the assets 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 an allowance for loan´s impairment 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 significant individually 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 an allowance for impairment in the statement of income. The carrying amount of impaired loans is reduced through the use of an allowance account.

(4) Summary of Significant Accounting Policies, continued

(d.2) Collectively Evaluated Loans

For the purposes of a collective evaluation of impairment, consumer loans are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimate of future cash flows for groups of such assets. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group, the historical loss experience for assets with similar credit risk characteristics to those in the group and management's experienced judgment as to whether the current economy and credit conditions are such that the actual level of inherent losses is likely to be greater or less than the suggested historical experience. Default rates, loss rates and expected time for future recoveries are regularly compared with the real results to ensure they still appropriate.

(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 a 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.

These debt instruments are measured at inception at its fair value, plus 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.

(4) Summary of Significant Accounting Policies, continued

(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

At the statement of financial position date there are standards that have not been applied in preparing these financial statements:

- The final version of IFRS 9 Financial Instruments (2014) replaces all previous versions of IFRS 9 issued (2009, 2010 and 2013) and complete the proposed replacement of IAS 39. Among the most important effects of this standard are:

  - New requirements for classification and measurement of financial assets. Among others, this standard contains two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 eliminates the existing categories in IAS 39 of held to maturity, securities available for sale, loans and receivables.

  - Eliminates the volatility in results caused by changes in the credit risk of liabilities measured at fair value, which means that the profits produced by the impairment of own credit risk of the entity in this type of obligations are not recognized in the statement of income of the period.

  - A substantially reformed approach to hedge accounting, with improved disclosures on the risk management activity.

  - A new impairment model based on "expected loss" that will require more timely recognition of expected credit losses.

  The effective date for the application of IFRS 9 is for annual periods beginning on or after January 1, 2018. However, early adoption is permitted.

- IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for reporting periods beginning on or after 1 January 2018 with early adoption permitted.

(4) Summary of Significant Accounting Policies, continued

- 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 also permitted for entities that adopt IFRS 15 "Revenue from Contracts with Customers".

By the nature of the financial transactions of the Trust, the adoption of this standard could have an impact on the consolidated financial statements, an aspect that is being evaluated by management.

(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.

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.

(6) Financial Risk Management, continued

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 2016
Book value	44,134,752
At amortized cost	
Grade 1: Current balance	44,011,565
Arrears without impairment:	
Grade 2: Low risk	
31 – 60 days	76,245
Grade 3 to 5: Watch list	
61 – 90 days	46,942
91 – 120 days	0
121 – 150 days	0
151 – 180 days	0
Book value	123,187
Individually impaired	
Grade 6:	
More than 180 days	0
Individual allowance	0

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.

(6) Financial Risk Management, continued

- 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, 2016, the estimated value of the collateral mortgage on properties amounted to B/.55,993,650.

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

Deposits placed with Banks
At December 31, 2016, the Trust held deposits placed with banks for 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	2016
0-20%	54,968
21-40%	390,716
41-60%	2,164,530
61-80%	10,881,146
81-100%	30,643,392
Total	44,134,752

(6) Financial Risk Management, continued

(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 with respect to the contractual maturity date.

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)
	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
	44,614,211	111,821,756	5,205,509	18,896,280	23,430,976	64,288,991

Loans receivables for B/.44,134,752, are 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.

(6) Financial Risk Management, continued

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				
2016	739	(739)	1,477	(279)
Sensitivity of projected net equity				
2016	739	(739)	1,477	(279)

The Trust significantly mitigates its exposure to the effects of fluctuations in market interest rates, as a result of the variability in rates of assets based on the rates structure of its liabilities.

(d) Capital management:

As of December 31, 2016, 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, 2016, the Trust held savings accounts at a local bank, with a balance of 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 1,259 residential mortgage loans, whose original disbursements amounted on B/.47,581,556, which at December 31, 2016 had an outstanding principal balance of B/.44,134,752.

Residential mortgage loans have maturities from December 17, 2019 to December 20, 2036. At December 31, 2016, the range of interest rates of the mortgage loans portfolio ranges from 7.43% al 10.75%.

(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.

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, 2016 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, 2016 the interest rate paid was 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/.39,068,670, Series B of B/.4,500,000 and B/.750,000 for Series C bonds.

(10) Interest Payable

The Trust kept interest payable on the Series A bonds for B/.85,459, interest payable on Series B bonds for B/.13,813 and interest payable on Series C bonds for 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, 2016, the following were the balances and aggregate results regarding these transactions:

	2016
Bonds payable	7,345,934
Interest payable	21,698
Account payable	188,471
Interest expense on bonds	122,805
Commisions	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:

	2016	
	Carrying Value	Fair Value
Financial assets:		
Loans receivable, net	44,134,752	41,123,475
Financial liabilities:		
Bonds payable	44,318,670	44,476,788

As of December 31, 2016, 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
Loans receivable	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.