

**HENCORP PANAMA, S. DE R.L.  
AND SUBSIDIARIES**  
(Panama, Republic of Panama)

**Consolidated Financial Statements**

As of December 31, 2016

(With Independent Auditors' Report)

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**HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES**  
(Panama, Republic of Panama)

Table of Contents

Independent Auditors' Report

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



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Shareholders of  
Hencorp Panama S. de R.L.

### *Opinion*

We have audited the consolidated financial statements of Hencorp Panama S. de R.L and Subsidiaries. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated 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 consolidated financial statements present fairly, in all material respects the consolidated financial position of the Company as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 13 of the consolidated financial statements in which detailed balances and transactions with related parties, some of which has significantly impact in consolidated financial situation, financial performance and cash flows of the Company.

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company 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 consolidated financial statements in 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.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

*KPMG*

Panama, Republic of Panama  
October 16, 2017

**HENCORP PANAMA S. DE R.L. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Statement of Financial Position**

As at December 31, 2016

(Stated in United States Dollars)

<b><u>Assets</u></b>	<b><u>Note</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Deposit with banks		991,535	1,098,465
Loans held for trading	4, 5	14,411,113	13,639,832
Investment in fund	6	10,000	994,950
Interest receivable		26,365	5,397
Other assets	7	1,411,302	112,647
<b>Total assets</b>		<b>16,850,315</b>	<b>15,851,291</b>
<b><u>Liabilities</u></b>			
Borrowings received	4, 8	14,642,830	12,574,686
Accrued interest payable		1,598	120,518
Accounts payable, from related companies		372,349	1,007,493
Income tax payable and other liabilities	9	0	292,485
<b>Total liabilities</b>		<b>15,016,777</b>	<b>13,995,182</b>
<b><u>Equity</u></b>			
Common shares	12	1,000,000	1,000,000
Fair value reserve		0	4,950
Retained earnings		833,538	851,159
<b>Total equity</b>		<b>1,833,538</b>	<b>1,856,109</b>
<b>Total liabilities and equity</b>		<b>16,850,315</b>	<b>15,851,291</b>

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

**HENCORP PANAMA S. DE R.L. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Statement of Income**

For the year ended December 31, 2016

(Stated in United States Dollars)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
<b>Interest, commissions and dividends income:</b>			
Interest from loans held for trading and loan servicing	5	3,066,159	1,650,868
Comissions from loans		190,038	64,654
Dividends		26,782	45,147
<b>Total revenue</b>		<u>3,282,979</u>	<u>1,760,669</u>
<b>Interest expenses:</b>			
Borrowings	8	<u>603,057</u>	<u>126,027</u>
<b>Total interest, commissions and dividends income, net</b>		<u>2,679,922</u>	<u>1,634,642</u>
<b>Operating expenses:</b>			
Referral commissions		90,648	0
Bank charges		71,479	17,046
Consulting fees		77,564	9,716
Accounting fees		49,988	20,200
Professional fees		37,957	3,793
Other	10	<u>71,390</u>	<u>2,361</u>
<b>Total operating expenses</b>		<u>399,026</u>	<u>53,116</u>
<b>Net income before income tax</b>		<u>2,280,896</u>	<u>1,581,526</u>
Income tax	9	<u>909,268</u>	<u>659,442</u>
<b>Net income</b>		<u><u>1,371,628</u></u>	<u><u>922,084</u></u>

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

**HENCORP PANAMA S. DE R.L. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Statement of Changes in Equity**

For the year ended December 31, 2016

(Stated in United States Dollars)

	<u>Common Shares</u>	<u>Fair Value Reserve</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
<b>Balance as of March 21, 2015</b>	0	0	0	0
Comprehensive income:				
Net Income - 2015	0	0	922,084	922,084
Other comprehensive income:				
Net change in valuation of investments	0	4,950	0	4,950
Total of other comprehensive income	0	4,950	0	4,950
<b>Total of comprehensive income</b>	0	4,950	922,084	927,034
Contributions and distributions:				
Shares issued	1,000,000	0	0	1,000,000
Tax remittances	0	0	(70,925)	(70,925)
<b>Total Contributions and distributions</b>	1,000,000	0	(70,925)	929,075
<b>Balance as of December 31, 2015</b>	1,000,000	4,950	851,159	1,856,109
Comprehensive income:				
Net Income - 2016	0	0	1,371,628	1,371,628
Other comprehensive income:				
Net change in valuation of investments	0	(4,950)	0	(4,950)
Total of other comprehensive income	0	(4,950)	0	(4,950)
<b>Total of comprehensive income</b>	0	(4,950)	1,371,628	1,366,678
Contributions and distributions:				
Tax remittances	0	0	(111,049)	(111,049)
Dividends	0	0	(1,278,200)	(1,278,200)
<b>Total Contributions and distributions</b>	0	0	(1,389,249)	(1,389,249)
<b>Balance as of December 31, 2016</b>	1,000,000	0	833,538	1,833,538

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



**HENCORP PANAMA S. DE R.L. AND SUBSIDIARIES**

(Panama, Republic of Panama)

**Consolidated Statement of Cash Flows**

For the year ended December 31, 2016

(Stated in United States Dollars)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>			
Net income		1,371,628	922,084
Adjustment to reconcile net income to net cash provided by operating activities:			
Income tax	9	909,268	659,442
Interest income, loan servicing and dividends, net		(2,679,922)	(1,634,642)
Changes in operating assets and liabilities:			
Loans held for trading		(771,281)	(13,639,832)
Other assets		(1,298,655)	(112,647)
Accounts payable		(635,144)	640,536
Interest received and loan servicing		3,262,011	1,755,272
Taxes paid		(1,201,753)	0
Interest paid		(721,977)	(5,509)
<b>Net cash used in operating activities</b>		<u>(1,765,825)</u>	<u>(11,415,296)</u>
<b>Cash flows from investing activities:</b>			
Investment in funds		<u>980,000</u>	<u>(990,000)</u>
<b>Net cash used in investing activities</b>		<u>980,000</u>	<u>(990,000)</u>
<b>Cash flows from financing activities:</b>			
Borrowings, net	8	2,068,144	12,574,686
Shares issued		0	1,000,000
Dividends paid on common shares		(1,278,200)	0
Tax remittance		<u>(111,049)</u>	<u>(70,925)</u>
<b>Net cash provided from financing activities</b>		<u>678,895</u>	<u>13,503,761</u>
Net (decrease) increase in cash		(106,930)	1,098,465
Cash at the beginning of the year		<u>1,098,465</u>	<u>0</u>
<b>Cash at the end of the year</b>		<u><u>991,535</u></u>	<u><u>1,098,465</u></u>

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

# **HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES**

(Panama, Republic of Panama)

## **Notes to the Consolidated Financial Statements**

December 31, 2016

(Stated in United States Dollars)

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### **(1) General Information**

Hencorp Panama, S. de R.L., was organized on October 9, 2014 as a Panama limited responsibility company and started operations on March 21, 2015. Hencorp Panama, S. de R.L. is owned by two entities incorporated in the State of Florida (United States of America), Hencorp Inc., with a 89.68% stake, and FHH Corp. with a 10.32% stake. The Company is engaged in originating and structuring loans to customers, primarily corporations. Subsequently the loans are sold and participated to banks and private investors principally located in Central America, South America, the Caribbean and Mexico. All loans are sold without recourse through participation agreements under the Laws of Panama. The servicing rights of such loans are generally retained by the Company. Hencorp Panama, S. de R.L. also retains interests in loans for its own portfolio and may provide advisory, consulting and loan brokerage services.

Hencorp Panama, S. de R.L. wholly owns two subsidiaries, Hencorp Barbados SCC SRL (Hencorp Barbados) and Hencorp Europe, S.L.U. (Hencorp Europe). Hencorp Barbados is a society with restricted liability organized pursuant to the Barbados Restricted Liability Act, on January 12, 2015. Hencorp Europe is a Sociedad Limitada Unipersonal and was constituted in Barcelona, Spain, on December 30, 2014, with current domicile in Madrid, Spain.

Hencorp Panama, S. de R.L. and Subsidiaries shall be here in after jointly referred to as the "Company".

The Company obtains financing for the loans primarily from a related party, Hencorp Becstone Capital, L.C., a company incorporated in the State of Florida (United States of America).

### **(2) Basis of presentations**

#### **(a) Statement of Compliance**

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

These consolidated financial statements were approved by the Board of Directors on October 16, 2017.

#### **(b) Basis of Measurement**

The consolidated financial statements have been prepared on the historical cost basis, amortized cost and fair value for the investment in fund and loans held for trading.

The Company initially, recognizes loans held for trading, receivables and deposits on the date on which they are originated.

#### **(c) Functional and Presentation Currency**

These consolidated financial statements are presented in United States dollars (US\$), which is the Company's functional currency.

# HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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### (3) Summary of Significant Accounting Policies

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

##### (a.1) Subsidiaries

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

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

##### (a.2) Transactions Eliminated on Consolidation

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between subsidiaries of the Company are eliminated on consolidation.

#### (b) *Cash*

Cash include deposits with banks.

#### (c) *Loans held for trading*

Company designates the loans as held for trading and are measured at fair value with changes in fair value recognized immediately in profit or loss.

#### (d) *Investment in fund*

This category includes investments acquired to be maintained for indefinite time with the intention to sell them in case of liquidity issues, changes in interest rates, exchange rate or changes in share market prices. These investments are recorded at their fair value and other changes in the carrying amount of the assets are recognized in other comprehensive income and accumulated under the heading of net change in valuation of investment in fund. When the investment is disposed of (derecognized) or is determined to be impaired, the cumulative gain or loss formerly recognized in the consolidated statement of other comprehensive income is reclassified to the consolidated statement of income.

#### (e) *Dividend income*

Dividends are recognized in the consolidated statement of income when the Company's right to receive the dividends is established.

#### (f) *Borrowings Received*

Borrowings received are measured at amortized cost.

#### (g) *Related Party*

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

#### (h) *Loan Servicing*

The Company retains the servicing rights of all the loans it originates, and may outsource such servicing activities to third parties.

# HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

#### (i) *Interest Income*

Interest income and expenses are usually recognized in the consolidated statement of income for any financial instrument presented at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income over the relevant period. The calculation includes all the commissions and installments paid or received by the counterparties which form integral part of the effective interest rate, transaction costs and any other premium or discount. Transaction costs are origin costs directly attributable to the acquisition, issuance or disposal of an asset or liability. When calculating the effective interest rate, the cash flows are estimated considering all contractual terms of the financial instrument, but not future credit losses.

#### (j) *Income Taxes*

Interest gained by the Company's subsidiaries, are subject to domestic income tax. Dividends paid by the Company's subsidiaries, are also subject to remittances taxes withheld by the paying entity.

#### (k) *Use of Estimates*

The preparation of this consolidated financial statements requires management to use estimates and assumptions that affect the carrying amounts of assets and liabilities, comprehensive income and related disclosures. If actual results differ from the estimates the impact would be recorded in future periods.

The Company has established detailed policies and control procedures that are intended to ensure these judgments are well controlled, independently reviewed and consistently applied from period to period. Management believes that the estimates of the value of the Company's assets and liabilities are appropriate.

#### (l) *New IFRS and Interpretations that have not been yet adopted*

At the date of the consolidated financial statements there are standards that have not been yet applied in their preparation:

- The final version of IFRS 9 Financial Instruments (2014) supersedes any previous versions of IFRS 9 (2009, 2010 and 2013), and forms part of the comprehensive project to supersede IAS 39. Among the most significant effects of this Standard are:
  - IFRS 9 contains new requirements for the classification and measurement of financial assets. Among other aspects, this Standard includes two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 eliminates the categories previously implemented by IAS 39 corresponding to held-to-maturity investments, available-for-sale investments, loans and receivables.
  - Removal of profit or loss volatility caused by changes in the credit risk of liabilities measured at fair value, which implies that gains obtained from the entity's own credit risk impairment in this type of obligations is no longer recognized in profit or loss for the period, but in equity.

# HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

- A substantially amended approach for hedge accounting, with enhanced disclosures in relating with risk management.
- A new impairment model, based on “expected losses” which will require greater and timely recognition of expected credit losses.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. However, the early adoption is permitted.

Given the nature of the Company financial operations, the adoption of this standard is expected to have a pervasive impact on the consolidated financial statements, which is currently assessed by Management.

- 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 January 1, 2018, with early adoption permitted.

The Company is evaluating the potential effect of the application of IFRS 15 on its consolidated financial statements.

At the date of the consolidated financial statements, it has not assessed the impact that the adoption of this standard will have on the consolidated financial statements.

### (4) Financial Risk Management

The main risk identified by the Company are credit, liquidity, market and operational risk, which are described as follows:

#### (a) Credit Risk

The credit risk represents the probability that the counterparty to a business transaction does not meet the terms originally agreed with the Company.

The Company exposed to credit losses in the event of nonpayment on its loans held for trading for the time they are in the consolidated statement of financial position and deposits with bank. The Company's maximum credit exposure is equivalent to the carrying value of the financial instruments on the consolidated statement of financial position.

To mitigate credit risk, risk management policies establish processes and controls to follow for the approval of loans held for trading. The Company structures acceptable credit risk levels by setting limits on the amount of risk that is assumed in relation to one borrower, or group of borrowers, and geographic segment. These credits are constantly controlled and subject to periodic review.

# HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (4) Financial Risk Management, continued

Exposure to credit risk is managed through a periodic analysis of the borrower's or potential borrower's capacity to pay principal and interest. Exposure to credit risk is also mitigated in part through collateral and corporate guarantees.

The analysis of credit risk concentration at the date of the consolidated financial statements is as follows:

	<b>2016</b>		<b>2015</b>	
	<b>Loans held for trading</b>	<b>Deposit with banks</b>	<b>Loans held for trading</b>	<b>Deposit with banks</b>
<b>Geographic location</b>				
United States of America	0	921,460	0	862,749
España	0	62,068	0	0
Panama	0	8,007	0	235,716
Costa Rica	<u>14,411,113</u>	<u>0</u>	<u>13,639,832</u>	<u>0</u>
	<u>14,411,113</u>	<u>991,535</u>	<u>13,639,832</u>	<u>1,098,465</u>
<b>Industries location</b>				
Commercial	3,887,215	0	5,609,729	0
Financial	7,563,898	991,535	4,500,000	1,098,465
Manufacturing	2,960,000	0	3,055,103	0
Real estate	<u>0</u>	<u>0</u>	<u>475,000</u>	<u>0</u>
	<u>14,411,113</u>	<u>991,535</u>	<u>13,639,832</u>	<u>1,098,465</u>

### (b) Market Risk

Market risk is the potential for financial loss arising from changes in interest rates. The Company actively controls its interest rate exposure by managing re-pricing risk between assets and liabilities.

Market risk is the risk that the value of a financial instrument held by the Company is reduced due to changes in interest rates, currency exchange rates, stock prices, or other financial variables, and the reaction of participant markets to economic and political events. The objective of market risk management is to manage and monitor risk exposures, and to maintain them within acceptable parameters while optimizing risk/return.

The Company seeks to minimize exposure to interest rate and currency movements. An ongoing and thorough review of portfolio companies, through a comprehensive due diligence that includes company visits, discussions with creditors, and financial statement analysis, is a fundamental part of the Company's risk management process.

As at the reporting date, the risk of interest rate is minimal as the Company only maintains financial assets and liabilities with fixed rate.

As at reporting date, the Company has no foreign currency transactions and no financial instruments other than demand deposit, loans held for trading, investment in fund, borrowings and accounts payable. As a result, the exposure to market risk is minimal.

# HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (4) Financial Risk Management, continued

The table presented below summarizes the Company's exposure to interest rate risks. The Company's assets and liabilities are included in the table at their carrying values, classified per categories, depending on the new setting of the contractual rate or maturity dates, whichever occurs first.

<b>2016</b>	<b>Until 3 months</b>	<b>4 to 5 months</b>	<b>6 months to 1 year</b>	<b>Over 1 year</b>	<b>Total</b>
<b>Financial assets:</b>					
Deposits with banks	991,535	0	0	0	991,535
Loans held for trading	2,126,309	4,675,080	1,609,724	6,000,000	14,411,113
<b>Total financial assets</b>	<b>3,117,844</b>	<b>4,675,080</b>	<b>1,609,724</b>	<b>6,000,000</b>	<b>15,402,648</b>
<b>Financial liabilities:</b>					
Borrowings received	2,664,766	3,402,000	2,576,064	6,000,000	14,642,830
<b>Total financial liabilities</b>	<b>2,664,766</b>	<b>3,402,000</b>	<b>2,576,064</b>	<b>6,000,000</b>	<b>14,642,830</b>
<b>Total sensitivity to interest rates</b>	<b>453,078</b>	<b>1,273,080</b>	<b>(966,340)</b>	<b>0</b>	<b>759,818</b>
<b>2015</b>	<b>Until 3 months</b>	<b>4 to 5 months</b>	<b>6 months to 1 year</b>	<b>Over 1 year</b>	<b>Total</b>
<b>Financial assets:</b>					
Deposits with banks	1,098,465	0	0	0	1,098,465
Loans held for trading	3,787,291	5,082,266	4,770,275	0	13,639,832
<b>Total financial assets</b>	<b>4,885,756</b>	<b>5,082,266</b>	<b>4,770,275</b>	<b>0</b>	<b>14,738,297</b>
<b>Financial liabilities:</b>					
Borrowings received	3,657,129	4,402,557	4,515,000	0	12,574,686
<b>Total financial liabilities</b>	<b>3,657,129</b>	<b>4,402,557</b>	<b>4,515,000</b>	<b>0</b>	<b>12,574,686</b>
<b>Total sensitivity to interest rates</b>	<b>1,228,627</b>	<b>679,709</b>	<b>255,275</b>	<b>0</b>	<b>2,163,611</b>

The Company monitors the concentration of risk for investments in fund based on counterparties, industries and geographic locations of the loans granted by the Fund. The Company's investment in fund are concentrated in the following industries as percentage:

	<b>2016 Loans</b>	<b>2016 Deposit with banks</b>	<b>2015 Loans</b>	<b>2015 Deposit with banks</b>
<b>Geographic location</b>				
Costa Rica	47%	0%	40%	0%
El Salvador	34%	0%	31%	0%
Nicaragua	7%	0%	7%	0%
Mexico	6%	0%	19%	0%
Guatemala	3%	100%	0%	100%
Dominican Republic	2%	0%	3%	0%
Honduras	2%	0%	0%	0%

# HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (4) Financial Risk Management, continued

	<u>Loans</u>	<u>2016</u> <u>Deposit with</u> <u>banks</u>	<u>2015</u> <u>Deposit with</u> <u>banks</u>
<b>Industries location</b>			
Financing for sale	27%	0	31%
Agroindustry	22%	0	7%
Vehicle	12%	0	3%
Manufacture	8%	0	10%
Metalworking	7%	0	10%
Financial	5%	100%	3%
Automotive	4%	0	5%
Commercial	3%	0	7%
Advertising	3%	0	4%
Real estate	3%	0	0%
Construction	2%	0	14%
Energy	2%	0	3%
Distribution of goods	2%	0	3%

#### (c) *Liquidity Risk*

Liquidity risk is the risk that the Company will not have access to cash to meet its financial commitments as they fall due. The Company's policy is to ensure there are always funds available to honor all current and future cash flow commitments. In this regard, the Company has constant control over its short term liabilities and assets.

The following table details the undiscounted cash flows from financial assets and liabilities, in contractual maturity groups from the remaining period from the date of the consolidated statement of financial position.

<u>2016</u>	<u>Until 3</u> <u>months</u>	<u>4 to 5</u> <u>months</u>	<u>6 months to</u> <u>1 year</u>	<u>Over</u> <u>1 year</u>	<u>Total nominal</u> <u>gross amount</u> <u>inflow/(outflow)</u>	<u>Carrying</u> <u>Value</u>
<b>Financial liabilities</b>						
Accounts payables	(372,349)	0	0	0	(372,349)	372,349
Borrowings received	(2,697,410)	(4,406,190)	(1,725,192)	(7,144,361)	(15,973,153)	14,642,830
	<u>(3,051,129)</u>	<u>(4,406,190)</u>	<u>(1,725,192)</u>	<u>(7,144,361)</u>	<u>(16,326,872)</u>	<u>14,996,549</u>
<b>Financial Assets</b>						
Deposits with banks	991,535	0	0	0	991,535	991,535
Loans held for trading	2,298,416	6,129,338	162,524	7,354,651	15,974,929	14,411,113
Investment in fund	0	0	10,000	0	10,000	10,000
	<u>3,289,951</u>	<u>6,129,338</u>	<u>172,524</u>	<u>7,354,651</u>	<u>16,946,464</u>	<u>15,412,648</u>
	<u>238,822</u>	<u>1,723,148</u>	<u>(1,552,668)</u>	<u>210,290</u>	<u>619,592</u>	<u>416,099</u>



# HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (4) Financial Risk Management, continued

<u>2015</u>	<u>Until 3 months</u>	<u>4 to 5 months</u>	<u>6 months to 1 year</u>	<u>Over 1 year</u>	<u>Total nominal gross amount inflow/(outflow)</u>	<u>Carrying Value</u>
<b>Financial liabilities</b>						
Accounts payables	0	(1,007,493)	0	0	(1,007,493)	1,007,493
Borrowings received	(3,684,233)	(4,503,996)	(4,642,309)	0	(12,830,538)	12,574,686
	<u>(3,684,233)</u>	<u>(5,511,489)</u>	<u>(4,642,309)</u>	<u>0</u>	<u>(13,838,031)</u>	<u>13,582,179</u>
<b>Financial Assets</b>						
Deposits with banks	1,098,465	0	0	0	1,098,465	1,098,465
Loans held for trading	3,817,919	5,204,991	4,913,637	0	13,936,547	13,639,832
Investment in fund	0	0	0	994,950	994,950	994,950
	<u>4,916,384</u>	<u>5,204,991</u>	<u>4,913,637</u>	<u>994,950</u>	<u>16,029,962</u>	<u>15,733,247</u>
	<u>1,232,151</u>	<u>(306,498)</u>	<u>271,328</u>	<u>994,950</u>	<u>2,191,931</u>	<u>2,151,068</u>

#### (d) Operational Risk

Operational risk is the likelihood of potential losses, direct or indirect damage to fixed assets, deliberate actions that lead to internal or external fraud, disruption services due to systems failure, errors associated with processes, products and finally, those related to human resources.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its objective of generating returns for shareholders.

The management of operational risk is supported by the development of overall standards, manuals, procedures and secured databases which include:

- Maintain, or cause to be maintained, complete and accurate financial books and records of the operations of the Company in accordance with prudent business practices and IFRS;
- Compliance with regulatory and other legal requirements; and
- Ethical and business standards.

#### (e) Capital administration

The Company is not subject to the any external imposition of capital requirement.

### (5) Loans Held for Trading

As of December 31, 2016, loans held for trading amounted to US\$14,411,113 with annual interest rate from 7.00% to 8.37% and maturities range from January 2017 to November 2019.

Loans are not past due nor impaired.

### (6) Investment in Fund

Hencorp Loan Fund (the Fund) is a private investment entity, organized on August 18, 2014 under the Laws of Panama. The Fund was authorized by the Panamanian Regulator, Superintendencia del Mercado de Valores, on February 2, 2015 to operate as an investment vehicle.

# HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (6) Investment in Fund, continued

The Company has invested on the Fund, generating annualized returns of approximately 6.25% on such investment. As of December 31, 2016, the Company held an investment of US\$10,000 on Fund participation, and during 2016, it generated dividends of US\$26,782.

The Company's investment in fund at December 31, 2016 and 2015 consisted of the following participations:

	<u>2016</u>	<u>Participation</u>	<u>2015</u>	<u>Participation</u>
Hencorp Panama	10,000	0.07%	10,050	0.07%
Hencorp Europe SLU	0	0%	743,700	4.94%
Hencorp Barbados	0	0%	241,200	1.60%
Total	<u>10,000</u>	<u>0.07%</u>	<u>994,950</u>	<u>6.61%</u>

### (7) Other Assets

The detail of other assets is as follows:

	<u>2016</u>	<u>2015</u>
Accounts receivable, from related companies	420,673	0
Prepaid taxes	955,416	0
Prepaid expenses	6,000	0
Other	29,213	112,647
Total	<u>1,411,302</u>	<u>112,647</u>

### (8) Borrowings Received

At December 31, 2016, the Company had borrowings from a related entity with common ownership aggregating US\$14,642,830. Such borrowings were match funded with assets from the Company's loan held for trading portfolio, and are paid off when such loans held for trading are participated or are paid or pre-paid.

The Company's borrowing as of December 31, is as follow:

<u>Balance</u>	<u>2016</u> <u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance</u>	<u>2015</u> <u>Interest Rate</u>	<u>Maturity Date</u>
215,000	6.00%	January 23, 2017	2,600,000	6.45%	February 1, 2016
500,000	6.00%	February 15, 2017	382,129	6.50%	February 9, 2016
29,766	6.00%	March 8, 2017	50,000	6.00%	February 22, 2016
1,920,000	6.00%	March 27, 2017	150,000	6.00%	February 25, 2016
500,000	6.00%	April 19, 2017	475,000	6.50%	March 28, 2016
202,000	6.00%	May 10, 2017	2,557	6.00%	April 22, 2016
200,000	6.00%	May 15, 2017	1,000,000	6.00%	May 3, 2016
500,000	6.00%	May 22, 2017	400,000	6.25%	May 6, 2016
2,000,000	6.00%	May 30, 2017	1,000,000	6.00%	May 16, 2016
900,000	6.00%	June 5, 2017	1,000,000	6.00%	May 17, 2016
876,064	6.00%	June 18, 2017	1,000,000	6.00%	May 30, 2016
800,000	6.00%	June 28, 2017	500,000	6.00%	June 6, 2016
3,000,000	6.00%	November 15, 2019	1,500,000	6.00%	June 7, 2016
3,000,000	6.00%	November 17, 2019	200,000	6.00%	June 8, 2016
			200,000	6.00%	June 15, 2016
			<u>2,115,000</u>	6.00%	June 24, 2016
<u>14,642,830</u>			<u>12,574,686</u>		

## HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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**(8) Borrowings Received, continued**

Interest on such borrowings range from 6.00% depending on loan size, tenor, and source of payment.

**(9) Income Tax**

*Hencorp Panamá S. de R. L.*

Hencorp Panama is taxed under the general rules of determination and payment of income tax of the Republic of Panama as provided by Article 699 of the Tax Code, as amended by Article 9 of Law 8 of March 15, 2010 with effect from January 1, 2010, which establishes a tax on income of 25% of the greater of the following two calculations:

- Net taxable income calculated by the traditional method established in the fourth book of the Tax Code; or
- For the companies with annual taxable income over one million five hundred thousand Balboas (B/.1,500,000) will pay income tax on the greater of resulting from applying four point sixty-seven percent (4.67%) to total taxable income.

Under current tax regulations, the income tax returns of the Hencorp Panama are subject to examinations by local tax authorities for the last three (3) years. Under current tax regulations, the companies incorporated in Panama are exempted from tax caused on income from foreign operations, from interest earned on term deposits at local banks, from debt securities of the Panamanian Government, and from investments in bonds listed with the Superintendence of Market Securities, and listed in Bolsa de Valores de Panamá, S. A.

At the date of the consolidated financial statements, the transactions of the Hencorp Panama are mostly exempt transactions, so it has not generated taxable income subject to the payment of income tax. The directors do not anticipate the Company to be carrying on business in the Republic of Panama.

*Hencorp Barbados*

The subsidiary Hencorp Barbados are subject to income tax in accordance with the tax legislation of Barbados.

Hencorp Barbados reports its provision for corporate income taxes in its Statement of Profit or Loss and Other Comprehensive Income based upon transactions recorded in its financial statements regardless of when they are recognised for income tax purposes. The Company's profits are subject to income tax at decreasing rates of 2.5% to 0.25% depending on the level of such profits.

# HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (9) Income Tax, continued

Hencorp Barbados effective tax rate differs from the statutory corporation tax rate of 2.5% as follows:

	<u>2016</u>	<u>2015</u>
Income before taxation	<u>174,285</u>	<u>140,290</u>
Tax calculated at 2.5%	4,357	3,507
Deferred taxes not recognized	<u>(4,357)</u>	<u>(3,507)</u>
Tax charge	<u>0</u>	<u>0</u>

#### *Hencorp Europe*

Hencorp Europe incorporated in Spain are subject to income tax in accordance with the tax legislation in this country.

The Company is subject to inspection for exercises not prescribed. This could lead to different interpretations by the Administration on the profits presented, never the less should not be significant differences in relation to income tax according to the accounting criteria used in the taxable base.

The calculation of income tax and the fee payable tax credit in favor of the Company, has been performed according to following table:

	<u>2016</u>	<u>2015</u>
Net income after taxes	2,713,909	1,703,387
(+) International withholding taxes	914,141	437,882
(+) Local taxes	0	213,883
Taxable Income	<u>3,628,050</u>	<u>2,355,152</u>
Corporate income Tax December 31 (25% - 28%)	<u>909,268</u>	<u>659,442</u>
(-) Tax credit for international withholding taxes	<u>(1,006,042)</u>	<u>(437,882)</u>
Income Tax Payable December 31	<u>(96,774)</u>	<u>221,560</u>

Income tax liabilities have been properly recorded and accounted for.

The debtors assume any remittance taxes that arise from loans payments to the Company.

### (10) Other Expenses

The detail of other expenses is as follows:

	<u>2016</u>	<u>2015</u>
Loss in foreign currency exchange	45,625	0
Other taxes	19,017	0
Legal fees	4,183	0
Other	<u>2,565</u>	<u>2,361</u>
<b>Total</b>	<u>71,390</u>	<u>2,361</u>

# HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (11) Fair Value of Financial Instruments

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

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instrument that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value and carrying amount of financial assets are as follows:

	<b>2016</b>		<b>2015</b>	
	<b>Level 3</b>		<b>Level 3</b>	
	<b><u>Carrying</u></b>	<b><u>Fair</u></b>	<b><u>Carrying</u></b>	<b><u>Fair</u></b>
	<b><u>value</u></b>	<b><u>value</u></b>	<b><u>value</u></b>	<b><u>value</u></b>
<b>Financial Assets:</b>				
Loans held for trading	14,411,113	14,411,113	13,639,832	13,639,832
Investments in fund	10,000	10,000	994,950	994,950
	<u>14,421,113</u>	<u>14,421,113</u>	<u>14,634,782</u>	<u>14,634,782</u>
<b>Financial Liabilities:</b>				
Borrowings	<u>14,462,830</u>	<u>14,218,718</u>	<u>12,574,686</u>	<u>12,576,861</u>
	<u>14,462,830</u>	<u>14,218,718</u>	<u>12,574,686</u>	<u>12,576,861</u>

The valuation technique and significant inputs used in the recurring fair value measurements of the investment in fund was the Net Asset Value extracted of the audited financial statement as of December 31, 2016 under International Financial Reporting Standards.

The Company's management believes that changing any non-observable input data listed in the table above to reflect reasonable and potential alternate assumptions would not result in significant changes in the estimated fair value.

## HENCORP PANAMA, S. DE R.L. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

The valuation technique and significant inputs used in the financial liabilities not measured at fair value, classified in the fair value hierarchy as Level 3, are described in the table below:

Financial Instrument	Valuation techniques and inputs used
Borrowings received	Discounted cash flows using current interest rates for financing of new obligations with similar remaining maturities.

#### (12) Equity

The Company has an authorized capital of 10,000 shares with nominal value of US\$100 issued and paid.

#### (13) Balances and Transactions with Related Parties

The consolidated statement of financial position and the consolidated statement of income include balances and transactions with related parties, which are summarized below:

	<u>2016</u>	<u>2015</u>
<b><u>Assets:</u></b>		
Investment in fund	<u>10,000</u>	<u>994,950</u>
Other assets	<u>420,673</u>	<u>0</u>
<b><u>Liabilities:</u></b>		
Accrued interest payable	<u>1,598</u>	<u>120,518</u>
Borrowings received	<u>14,642,830</u>	<u>12,574,686</u>
Account payable	<u>372,349</u>	<u>1,007,493</u>
<b><u>Revenue:</u></b>		
Dividends	<u>26,782</u>	<u>45,147</u>
<b><u>Interest expenses:</u></b>		
Borrowings received	<u>603,057</u>	<u>126,027</u>

#### (14) Contingencies

According to the best knowledge of the Management, the Company is not involved in litigation or claims that can will cause a material adverse effect on its business, consolidated statement of financial position or consolidated statement of income.