AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

Financial Statements

September 30, 2019

(With Independent Auditor's Report)

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

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INDEPENDENT AUDITORS´ REPORT

To the Board of Directors
Autoridad del Canal de Panamá

Opinion

We have audited the financial statements of the Autoridad del Canal de Panamá, (the "ACP"), which comprise the statement of financial position as of September 30, 2019, the income statement, and statements of 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 ACP as of September 30, 2019, 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 ACP 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 year. 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.

Contingencies for contractor claims
See note 30 to the financial statements

The key audit matter	How the matter was addressed in our audit
Contractor' claims are considered as a significant issue, because of the assessment of provisions and contingencies, which requires important judgments and analysis by management. Contingencies for arbitration claims with a contractor have an amount of B/.1,210 million in two arbitrations and a provisional amount between B/.1,500 to B/.2,000 million in other arbitration.	Our procedures in this area included: • We evaluate together with our legal specialists the conclusions reached by the management and its legal advisors. • We carry out and validate the procedures for sending and receiving confirmations to legal advisors and the internal lawyers of the ACP and we evaluate the disclosures made.

Property, plant, and equipment, net
See notes 3 (g), and 4 to the financial statements

The key audit matter	How the matter was addressed in our audit
• The ACP is the owner of the Canal facilities, buildings, structures and equipment required to operate the Panama Canal. The property, plant, and equipment (PPE) are considered a key Audit matter by its high transactional volume that involves the evaluation of capitalization of additions, designation of useful lives and judgement applied in the estimation of impairment losses on the basis of the calculation of the value in use of related PPE. The total amount in property, plant, and equipment is B/.8,927 million, representing 64% of the total assets of the ACP.	• We obtained an understanding and test the operational effectiveness of controls on the additions of PPE. • We obtained an understanding of how the ACP is determining the useful life and residual value of the PPE to conclude on the adequacy or not of such determination. • We make substantive test of additions during the year through selective sampling, and we examine relevant documents such as invoices, payments and reports of staff assigned to the construction underway to evaluate if the additions have been capitalized in accordance with the policies established by the ACP. • We recalculate the corresponding depreciation for the year; and • We visited and we inspected the PPE according to selective sampling. • We obtained and analyzed the impairment evaluation carried out by the ACP on the PPE to determine if the calculation is reasonable. We analyzed the method used, calculated and compared it with the one carried out by the ACP.

Other Information

Management is responsible for the other information. The other information comprises the annual report, but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we concluded that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management 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, management is responsible for assessing the ACP 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 ACP or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ACP 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 judgment 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 ACP 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 ACP 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 ACP 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 partner in charge of the audit who has prepared this independent auditors' report is Ricardo A. Carvajal V.

KPMG

Panama, Republic of Panama
December 12, 2019

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

Statement of Financial Position

September 30, 2019

(In thousands of balboas B/.)

	Note	2019	2018
Assets:			
Non-current assets:			
Property, plant and equipment:			
Property, plant and equipment, net	4	8,758,157	8,313,110
Constructions in progress	4	168,745	629,354
Total property, plant and equipment, net		8,926,902	8,942,464
Advances and other receivable to contractor, net	5, 26	0	292,152
Reimbursement right to ACP	25	368,684	320,649
Investment properties	7	97,394	89,831
Inventories, net	8	61,421	68,991
Total non-current assets		9,454,401	9,714,087
Current assets:			
Inventories	8	7,466	11,914
Advances and other receivable to contractor, net	5, 26	0	547,959
Trade and other receivables	6, 26, 28	41,363	54,227
Operations with settlement in progress	26	2,603	0
Other financial assets	9, 26	4,314,392	3,295,450
Cash and cash equivalents	11, 26	57,832	60,339
Accrued interest receivable	10	25,127	22,773
Other assets		1,724	1,092
Total current assets		4,450,507	3,993,754
Total assets		13,904,908	13,707,841

The statement of financial position must be read in conjunction with the notes that are an integral part of the financial statements.

	Note	2019	2018
Equity and liabilities:			
Equity:			
Contributed capital	12	1,906,336	1,906,193
Investment programs contributions	13	6,035,696	5,952,757
Reserves	13	1,270,589	1,111,449
Other equity accounts	14	(103,321)	(56,959)
Earnings available to distribute	15, 31	1,251,892	1,199,101
Total equity		10,361,192	10,112,541
Non-current liabilities:			
Bonds payable		450,000	450,000
Less: discount and issuing costs		8,513	9,078
Bonds payable, net	17, 26	441,487	440,922
Borrowings	16, 26	1,955,000	2,185,000
Employee benefits	25	381,266	331,591
Other financial liabilities	18, 26	103,603	59,884
Total non-current liabilities		2,881,356	3,017,397
Current liabilities:			
Trade and other payables	19, 26, 28	166,487	219,866
Bonds payable - interest	17	3,712	3,712
Borrowings	16, 26	260,530	146,520
Provision for marine accidents claims	20	13,882	20,402
Accrued salaries and vacation payable		152,035	138,403
Accrued interest payable	26	6,791	1,790
Other liabilities	21	58,923	47,210
Total current liabilities		662,360	577,903
Total equity and liabilities		13,904,908	13,707,841

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

Income Statement

For the year ended September 30, 2019

(In thousands of balboas B/.)

	Note	2019	2018
Revenues:			
Toll revenues		2,592,482	2,484,696
Other Canal transit services		485,163	484,858
		3,077,645	2,969,554
Other revenues:			
Sales of electricity and power		60,723	68,283
Sales of potable water	28	36,174	34,265
Miscellaneous	23	38,867	36,273
Total other revenues		135,764	138,821
Total revenues		3,213,409	3,108,375
Expenses:			
Salaries and wages	22	616,147	592,972
Employee benefits	22, 26	79,264	77,772
Materials and supplies	22	63,905	68,398
Fuel	8, 22	72,957	70,806
Transportation and allowances		2,816	2,203
Contracted services and fees		134,377	160,648
Insurance		19,006	20,844
Provision for marine accidents	20	508	10,241
Provision for obsolete inventory	8	1,944	500
Depreciation	4, 22	208,975	208,949
Fees paid to the Panamanian Treasury	15,19, 26	534,521	503,686
Other expenses	22	32,515	14,397
Total expenses		1,766,935	1,731,416
Results of operations		1,446,474	1,376,959
Finance income		106,915	57,714
Financial income in advance and other receivables to contractor	5	45,631	5,640
Finance costs	16	(103,239)	(86,930)
Finance income (costs), net		49,307	(23,576)
Profit for the year		1,495,781	1,353,383

The income statement must be read in conjunction with the notes that are an integral part of the financial statements.

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

Statement of Comprehensive Income

For the year ended September 30, 2019

(In thousands of balboas B/.)

	Note	2019	2018
Profit for the year		1,495,781	1,353,383
Other comprehensive income (loss):			
Items that will not be reclassified to income statement			
Net remeasurement of employee defined benefit plans actuarial (loss) income		(1,510)	566
Items that will not be reclassified to income statement		(1,510)	566
Items that are or may be reclassified to income statement			
Reclassification of losses on financial instruments to profit for the year		(171)	0
Unrealized income on fair value instruments with changes in other comprehensive income (OCI)	9, 14	3,465	240
Net (loss) income in cash flow hedges - call option contract and light diesel swap contract		(1,058)	2,078
Net (loss) income in cash flow hedges - interest rate swap contracts		(47,842)	58,606
Items that are or may be reclassified to income statement		(45,606)	60,924
Total other comprehensive (loss) income	14	(47,116)	61,490
Total comprehensive income		1,448,665	1,414,873

The statement of comprehensive income must be read in conjunction with the notes that are an integral part of the financial statements.

AUTORIDAD DEL CANAL DE PANAMÁ
(Panama, Republic of Panama)

Statement of Changes in Equity

For the year ended September 30, 2019

(In thousands of balboas B/.)

	Note	Contributed capital	Investment programs contributions	Reserves	Other equity accounts	Earnings available to distribute	Total equity
Balances as of September 30, 2017		1,906,193	5,985,835	924,089	(118,449)	1,193,809	9,891,477
Profit for the year		0	0	0	0	1,353,383	1,353,383
Other comprehensive income:							
Securities available for sale		0	0	0	240	0	240
Cash flow hedges		0	0	0	60,684	0	60,684
Net measurement of employees defined benefit plans actuarial income		0	0	0	566	0	566
Total other comprehensive income		0	0	0	61,490	0	61,490
Total comprehensive income of the year		0	0	0	61,490	1,353,383	1,414,873
Transfer to the Panamanian Treasury	15	0	0	0	0	(1,193,809)	(1,193,809)
Net decrease in contributions	13	0	(33,078)	0	0	33,078	0
Net increase in equity reserves	13	0	0	187,360	0	(187,360)	0
Balance as of September 30, 2018		1,906,193	5,952,757	1,111,449	(56,959)	1,199,101	10,112,541
Adoption impact of IFRS 9 as of October 1, 2018	27	0	0	0	754	(1,810)	(1,056)
Balance as of October 1, 2018		1,906,193	5,952,757	1,111,449	(56,205)	1,197,291	10,111,485
Profit for the year		0	0	0	0	1,495,781	1,495,781
Other comprehensive income (loss):							
Reclassification of losses on financial instruments to profit for the year		0	0	0	(171)	0	(171)
Fair value instruments with changes in other comprehensive income		0	0	0	3,465	0	3,465
Cash flow hedges		0	0	0	(48,900)	0	(48,900)
Net remeasurement of employee defined benefit plans actuarial loss		0	0	0	(1,510)	0	(1,510)
Total other comprehensive loss		0	0	0	(47,116)	0	(47,116)
Total comprehensive income (loss) of the year		0	0	0	(47,116)	1,495,781	1,448,665
Transfer to the Panamanian Treasury	15	0	0	0	0	(1,199,101)	(1,199,101)
Net increase in contributions	13	0	82,939	0	0	(82,939)	0
Net increase in equity reserves	13	0	0	159,140	0	(159,140)	0
Properties transferred to ACP	12	143	0	0	0	0	143
Balance as of September 30, 2019		1,906,336	6,035,696	1,270,589	(103,321)	1,251,892	10,361,192

The statement of changes in equity must be read in conjunction with the notes that are an integral part of the financial statements.

AUTORIDAD DEL CANAL DE PANAMÁ
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Statement of Cash Flows

For the year ended September 30, 2019

(In thousands of balboas B/.)

	Note	2019	2018
Cash flows from operating activities:			
Profit for the year		1,495,781	1,353,383
Depreciation		208,975	208,949
Loss on disposal and impairment adjustment of fixed assets		692	1,033
Realized net loss on investment at FVOCI (2018:available for sale)		(394)	(143)
Provision for marine accidents		508	10,241
Estimation for inventory obsolescence		1,944	500
Amortized discount in bonds payable		565	565
Materials and supplies inventory usages		42,933	38,457
Finance (income) costs, net		(49,307)	23,576
Changes in working capital:			
Decrease (increase) in trade and other receivable		12,858	(5,014)
Decrease (increase) in fuel inventory		4,448	(2,716)
Increase in other assets		(632)	(1,017)
(Decrease) Increase in trade and other payable		(53,379)	23,545
Payment of marine accidents claims		(7,028)	(3,883)
Increase in accrued salaries and vacation payable		13,632	2,655
Increase in operations with settlement in progress		(2,603)	0
Employee benefits plans		129	83
Increase in other liabilities		4,008	16,669
Cash provided by operating activities		1,673,130	1,666,883
Interest paid		(99,228)	(83,725)
Net cash provided by operating activities		1,573,902	1,583,158
Cash flows from investing activities:			
Purchase of property, plant and equipment		(193,820)	(173,835)
Purchase of inventories		(37,306)	(44,418)
Purchase of other financial assets		(5,076,194)	(3,577,452)
Sales and maturities of other financial assets		4,066,476	2,867,373
Advances and other receivable to contractor		847,630	31,043
Interest received		130,906	39,986
Net cash used in investing activities		(262,308)	(857,303)
Cash flows from financing activities:			
Payment of borrowings		(115,000)	0
Transfer to Panamanian Treasury		(1,199,101)	(1,193,809)
Net cash used in financing activities		(1,314,101)	(1,193,809)
Net decrease in cash and cash equivalents		(2,507)	(467,954)
Cash and cash equivalents at the beginning of the year		60,339	528,293
Cash and cash equivalents at the end of the year	11	57,832	60,339

The statement of cash flows must be read in conjunction with the notes that are an integral part of the financial statements.

(1) General Information

The Autoridad del Canal de Panamá, (the "ACP") is an autonomous legal entity of public law established by Article 316 of Title XIV of the Constitution of the Republic of Panama and subject to special arrangements made by the provisions of that Title, of Law No. 19 of June 11, 1997 and regulations that dictates the Board of Directors as mandated by articles 319 and 323 of the same Title. This legal framework provides, inter alia, that the administration, operation, conservation, maintenance and modernization of the Canal de Panamá (the Canal) and its related activities corresponds to the ACP exclusively. In addition, it establishes a special labor regime applicable to the ACP and its work force, as well as provides it with its own patrimony and the right to its administration.

The ACP, in coordination with government entities designated by law, is also responsible for the management, maintenance, use and conservation of the water resources of the Canal watershed, including lakes and their tributary streams. As part of this responsibility, the ACP optimizes these resources through the commercialization of water, energy and surplus goods, as well as tourism related activities in the Canal.

In accordance with the terms of the Torrijos-Carter Treaty signed in 1977, at noon on December 31, 1999, the Canal reverted to the Republic of Panama free of debts and liens, becoming an inalienable patrimony of the Republic of Panama, open to the peaceful and uninterrupted transit of vessels of all nations and whose use will be subject to the requirements and conditions established by the Political Constitution of the Republic of Panama, the Organic Law of the ACP and its management.

The main ACP offices are located at the Administration Building No. 101, Balboa, Corregimiento de Ancón, Republic of Panama.

(2) Basis of Preparation

(a) Statement of Compliance

The financial statements of the ACP, for the year ended September 30, 2019, have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The financial statements of the ACP, for the year ended September 30, 2019, were approved by the Board of Directors and authorized to be issued on December 12, 2019. The accompanying financial statements have been translated from Spanish into English.

(2) Basis of Preparation, continued

(b) Measurement Base

The financial statements have been prepared on the basis of historical cost, except for the following items in the statement of financial position:

- Fair value securities with change in other comprehensive income (FVOCI)
- Securities available for sale and hedging instruments
- Reimbursement right to ACP
- Employees benefits

(c) Functional and Presentation Currency

These financial statements are presented in balboas (B/.), monetary unit of the Republic of Panama, which is at par and of free exchange with the U.S. dollar (USD $). The Republic of Panama does not issue paper currency and instead uses the U.S. dollar as legal and functional tender. The ACP's financial statements are expressed in thousands of balboas (B/.).

(3) Summary of Significant Accounting Policies

The ACP has consistently applied the following accounting policies to all the years presented in these financial statements:

(a) Fair Value Measurement

Fair value is the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between the main market participants on the measurement date, or in its absence, in the most advantageous market to which the ACP has access at the time. The fair value of a liability reflects the effect of a default risk.

When applicable, the ACP measures the instrument´s fair value using a quoted price for that instrument in an active market. A market is considered to be active if the transactions of these assets or liabilities take place frequently and with sufficient volume and, in addition, information is provided on a continuous basis allowing prices to be set.

When there is no quoted price in an active market, the ACP uses valuation techniques that maximize the use of relevant observable input data and minimize the use of unobservable input data. The chosen valuation technique incorporates all the factors that the market participants would take into account when setting the price of a transaction.

The best evidence of fair value is a quoted market price in an active market. In the event that the market for a financial instrument is not considered as active, a valuation technique is used. The decision as to whether a market is active can include, but is not limited to, consideration of factors such as the magnitude and frequency of commercial activity, the availability of prices and the magnitude of offers and sales. In markets that are not active, to guarantee that the transaction price provides evidence of fair value or to determine the adjustments to the transaction prices that are necessary to measure the instrument´s fair value, additional work is required during the valuation process.

(3) Summary of Significant Accounting Policies, continued

The fair value of a demand deposit is not less than the amount to be received when it becomes due, discounted from the first date in which payment may be required.

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

(b) Transactions with Related Parties

All transactions with related parties are disclosed based on the established criteria in the International Accounting Standard (IAS 24)-"Related Party Disclosures". The ACP considers as a related party, all Government entities and any individual or legal entity that could be significantly influenced by key ACP personnel or could significantly influence key ACP personnel that participate in operational or financial decisions, or have representation from the ACP in other decision-making bodies, which may affect the preparation and results of the ACP's financial statements. This definition includes and considers as a related party, members of the board of directors and ACP´s Administration key personnel, their relatives, dependents or close persons, which include the spouse, their children or children of the spouse, or persons of analogous relationship of affectivity.

(c) Revenue Recognition

The ACP implemented IFRS 15 *Revenue from contracts with customers* as of October 1, 2018. This new standard provides a framework that replaces the revenue recognition guide existing in IFRS and establishes a five-step model for accounting for revenue arising from contracts with customers: identify the contract (s) with the customer; identify performance obligations; determine the transaction price; assign the transaction price to performance obligations to the extent that the contract covers more than one performance obligation; and recognize income when performance obligations are met. Revenue is recognized in an amount that reflects the consideration that the entity expects to receive in exchange for transferring goods or services to a customer

Depending on whether certain criteria are met, revenues are recognized: over time, in a way that represents the entity's performance; or at a certain moment in time, when the control of the goods or services is transferred to the client.

The ACP adopted IFRS 15 using the method retroactively with the cumulative effect of the initial application of this standard recognized on the date of initial application. The adoption of IFRS 15 did not change the ACP revenue recognition policy. IFRS 15 applies only to the results reported for fiscal year 2019.

Specific recognition criteria described below are met before the revenue is recognized:

Toll Revenue

Toll revenue is recognized at a specific time, when the transit service is provided through the Canal.

(3) Summary of Significant Accounting Policies, continued

Sale of Electric Energy and Power

Revenues from the sale of electric energy and power is recognized based on contractual and physical delivery of energy and power valued at contractual rates or at prevailing spot market rates. Revenue includes unbilled amounts for electricity sales and installed capacity supplied but not liquidated at the end of each period, which are recorded at contractual rates or at estimated prices in the spot market at the end of each period.

Sale of Water

Revenues from the sale of water is recognized when treated water is delivered based on prices contracted with the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN).

Services Rendered

Revenue from other services that include leases of communications structures, leasing of buildings, extraction of raw water, among others, are recognized over time. The client simultaneously receives and consumes the benefits provided by the entity's performance.

Some of the contracts include the free transfer of improvements to the ACP, an obligation that is satisfied in a moment when the concession period is over, so the income will be recognized at that time.

Interests

Interest earned on financial instruments measured at amortized cost and financial assets measured at fair value with changes in other comprehensive income (OCI) are recognized using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the financial instrument expected life to the carrying amount of the financial asset or liability. Interest income is included in a separate line in the income statement.

(d) Transfer to Panamanian Treasury

Transfer to Panamanian Treasury corresponds to net profit minus the funds required for contributions to the investment programs and for other equity reserves approved by the Board of Directors according to the ACP Organic Law.

(e) Fees Paid to the Panamanian Treasury

Fees paid to the Panamanian Treasury, which correspond to fees paid by the ACP in concept of per ton transit right, and public services fees, as mandated by the Panamanian Constitution, are recognized when incurred. By Constitutional mandate, the ACP is not subject to the payment of taxes, duties, tariffs, charges, rates or tribute of a national or municipal nature, with the exception of employer Panama Social Security payments, educational insurance, workmen's compensation of employees, public service fees, and the per ton transit right of the Canal.

(f) Borrowing and Bonds Issuance Costs

Borrowing and bonds issuance costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time for their intended use are capitalized as part of the cost of the assets, until all or practically all activities necessary to prepare the asset for its use are completed. All other borrowing costs are recognized as expenses in the period they are incurred. Borrowing costs consist of interests and other costs that ACP incurs in connection with the borrowing contract.

(3) Summary of Significant Accounting Policies, continued

(g) Property, Plant and Equipment

The Panama Canal as an entity defined by the Panamanian Constitution, which, according to Chapter I of Law No. 19 of 1997, is the inalienable patrimony of the Panamanian nation and includes (i) the waterway itself, (ii) its anchorages, berths, and entrances, (iii) lands and marine, river and lake waters, (iv) locks, (v) auxiliary dams, and (vi) dikes and water control structures. The ACP owns Canal installations, buildings, structures and equipment that support the operation of the Panama Canal. In addition, pursuant to Article 49 of Law No. 19 of 1997, the ACP is entitled to dispose of these assets to the extent they are not necessary for the functioning of the Panama Canal. These assets include electrical power plants and water purification plants, piers and docks, dry docks, radio stations, telemetric and hydro-meteorological stations, dredge spoil areas, spillways, lighthouses, buoys and navigation aids and pipelines.

Property, plant, and equipment held for use, the production or supply of goods or services, or for administrative purposes, are presented in the statement of financial position at their acquisition cost or production cost, net of accumulated depreciation and impairment that would have occurred.

Replacements and improvements of complete elements that increase the useful life of the asset or its economic capacity are accounted as property, plant, and equipment, with the respective retirement of any replaced element. When different parts of significant relative value of property, plant, and equipment have different useful lives, they are accounted separately.

Following the accrual principle, periodic maintenance, preservation and repair costs are recognize in the income statement when incurred:

Depreciation is calculated on the cost values following a straight-line method over the estimated useful life of the assets, with the understanding that the land on which buildings and other constructions are settled have an indefinite useful life and, therefore, are not subject to depreciation.

The following estimated useful lives are used to calculate depreciation:

Years	Buildings	Structures	Equipments
3 – 15	-	Asphalt roads	Automobiles, trucks, personal computers, servers
20 – 50	Concrete, steel	Water tanks, floating piers, concrete streets	Locomotives, tugs, dredges, floating cranes
75	-	Concrete piers, bridges, range towers	Gates, cranes
100	-	Locks structures, dams, dry-dock	-

(3) Summary of Significant Accounting Policies, continued

Constructions in progress include all direct charges for materials, labor, research, equipment, professional fees and indirect costs related to the works. Once these works are concluded, the construction value will become part of the property, plant, and equipment and its depreciation will begin.

Items of property, plant, and equipment are derecognized when no future economic benefits are expected from their use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the disposal proceeds and carrying amount of the asset) is included in the income statement when the asset is derecognized.

(h) Investment Properties

Investment properties are measured at acquisition cost, including other transactional associated costs. Subsequent to initial recognition, investment properties are stated by the ACP at its cost value, applying the same requirements as for property, plant, and equipment.

Transfers of investment properties to properties occupied by the owner or vice versa, are made only when there is a change in the use of the asset, which has been evidenced by:

- The start of the occupation by the ACP, in the case of a transfer of an investment property to property, plant and equipment.

- The end of the occupation by ACP, in the case of transfer of property, plant, and equipment to investment property.

Depreciation is calculated following a straight-line method over the estimated useful life of the assets, with the understanding that the land on which buildings and other constructions are settled have an indefinite useful life and, therefore, are not subject to depreciation.

Disbursements due to repairs and maintenance that do not meet the conditions for asset recognition are recognized as expense in the income statement when incurred.

(i) Impairment of Non-Financial Assets

The ACP assesses, at each reporting period date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, the ACP estimates the asset's recoverable amount, defined as the higher of an asset's fair value less costs to sell and its value in use. When the asset's carrying amount exceeds its recoverable value, the asset is consider as impaired and it is adjusted to its recoverable value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the specific risks to the asset. Determined impairment losses are recognized in the income statement of that year.

(j) Cash and Cash Equivalents

Cash and cash equivalents comprises cash and highly liquid short term investments which their maturity are equal or less than three months since the acquisition date as of the date of the financial position. For the statement of cash flows purposes, ACP presents the cash and cash equivalents net of overdrafts, if any.

(3) Summary of Significant Accounting Policies, continued

(k) Inventories

Supplies and materials for operations and fuel inventories are shown at the lower of cost between its acquisition cost and its net realizable value. Inventories are valued using the average cost method based on purchase cost to suppliers, not exceeding the realizable value, net of allowance for obsolescence of supplies and materials.

The ACP classifies its inventories as non-current when expected to be used or consumed in the operation after more than twelve months.

(l) Provisions

Provisions are recognized when the ACP has a present obligation, either legal or constructive in nature, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation amount.

The amount recognized as a provision must be the best estimate of the disbursement required to settle the present obligation at the end of the reporting period considering the corresponding risks and uncertainties. When a provision is measured using estimated cash flow to settle the present obligation, its carrying amount is the present value of such cash flow.

When the recovery of some or all of the economic benefits required to settle a provision is expected, an account receivable is recognized if it is virtually certain that the income will be received and the amount of the account receivable can be measured with certainty.

(m) Provision for marine accidents and other claims

The ACP is responsible for recording the provision for marine accidents and for claims from counterparts as soon as an economic obligation with high probability derived from these events is known.

For marine accidents, when an accident occurs, the ACP makes a detailed investigation in order to know the causes of the accident. Once the causes are known and, if applicable, a provision is recorded based on the estimated cost of both permanent and temporary repairs and other related costs, which the Administration determines are the responsibility of the ACP. On each date of the statement of financial position, the amount of the provision is reviewed and, if necessary, adjusted to reflect the best estimate at that time.

In the case of contractors and other counterparts, when disputes arise due to the execution, interpretation or termination of a contract, it is first required that the contracting officer determine if the claim has merit and, if so, estimate the probable amount of the obligation to try to reach an agreement with the counterparty. If an agreement is not given, the contracting officer documents the result of this attempt, recognizes a provision for the amount of the obligation and the parties go through on administrative dispute resolution process agreed in the contract. In some contracts, arbitration in law is established as the jurisdictional instance for the resolution of disputes.

(3) Summary of Significant Accounting Policies, continued

The ACP will make the corresponding payment of the claims whose merit is duly supported and accepted by the Authority, in its administrative stage or in the judicial stage according to Article 69 of the Organic Law or in compliance with a final decision executed by the maritime courts. In those cases in which the ACP could be liable as a result of a claim for a contract, if it contains an arbitration clause, the claim will be resolved by the mechanism and Arbitration Center established in the respective contract. If there is no arbitration clause in the contract, the case will be resolved by the Third Chamber of the Panamanian Supreme Court of Justice.

(n) Employee Benefits

Ninety two percent (92%) of the workforce in the ACP is represented by six bargaining units (unions) that have negotiated collective agreements which terms are periodically negotiated. During fiscal year 2016, four collective agreements were settled, the Non-professionals and the Professionals, which will be in effect until year 2019, the Board of Captains and Officials that will be in effect until year 2020, and the Pilots until the year 2021.

In fiscal year 2017, two collective agreements were settled: the firemen, in effect until year 2021, and the machine engineers, until year 2020.

In defined benefit plans for the voluntary retirement of employees, an actuarial liability is recognized not only for the legal obligation under the formal terms of the plan, but also for the implicit projections of constructive nature arising from expectations created by informal practices as required under IAS 19. These actuarial projections, of constructive nature, do not constitute a legal labor obligation for the ACP, nor are they provisioned.

Voluntary Retirement Plans

The ACP provides two unfunded defined benefit plans for voluntary retirement of employees. The cost of providing these benefits is determined using the projected unit credit method. Actuarial gains and losses are fully recognized in the period which they occurred in the statement of comprehensive income. The liability for defined benefits comprises the present value of both, the actual and constructive obligations of defined benefits. Under IAS 19, the ACP determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year, taking into consideration any changes in the benefit liability during the period as a result of benefit payments.

Defined Benefit Contribution Plan

Retirement benefits for employees are provided through a defined contribution plan through the Caja de Seguro Social which assumes responsibility for retirement. Contributions are made based on parameters set by the Organic Law of that institution. The ACP does not assume responsibility or obligation other than the payment determined by Law.

(3) Summary of Significant Accounting Policies, continued

(o) Reimbursement Right to ACP

The right to reimbursement to ACP is an insurance policy in which the indemnities return to the ACP to reimburse all the benefits paid to employees as an incentive for voluntary retirement. In accordance with IAS 19, it is recognized at fair value as a separate asset when it is virtually certain that a third party will reimburse some or all of the disbursements required to settle a defined benefit obligation. Changes in the fair value of the right to reimbursement are disaggregated and recognized in the same way as for changes in the fair value of the related obligation plan. The components of defined benefit cost are recognized net of changes in the carrying amount of the right to reimbursement.

The fair value of the right to reimbursement to the ACP arising from an insurance policy that exactly matches the amount and timing of some or all defined benefits payable in terms of a defined benefit plan, is considered the present value of related constructive actuarial obligation, subject to any reduction required if the reimbursement is not fully recoverable.

(p) Financial Instruments

The ACP has adopted IFRS 9 Financial Instruments issued in July 2014 with initial application date October 1, 2018. The requirements of IFRS 9 do not represent a significant change at the time of recognition or how to measure assets and liabilities, and related expenses and income.

Changes in the accounting policies of the adoption of IFRS 9 have been applied retrospectively, with the exception of the following:

- Comparative periods have not been updated. The differences in the book values of the financial assets resulting from the adoption of IFRS 9 are recognized in the earnings available to distribute as of October 1, 2018; therefore, the information presented for 2018 does not reflect the requirements of IFRS 9 and, therefore, is not comparable with that presented for 2019 according to IFRS 9.
- The following evaluation was carried out on the basis of the facts and circumstances that existed at the date of initial application, which consisted in determining the business model in which a financial asset is maintained.
- All hedging relationships designated under IAS 39 as of September 30, 2018 meet the criteria for hedge accounting under IFRS 9 as of October 1, 2018 and, consequently, are considered continuous hedging relationships.

Recognition of financial instruments

The ACP uses the negotiation date to record its financial instrument transactions.

(q) Financial assets and liabilities

Financial assets are classified at the date of initial recognition, based on the nature and purpose of the acquisition of the financial asset.

Accounting policies used as of October 1, 2018:

Classification and measurement - Financial assets under IFRS9

In their initial recognition, financial assets are classified as measured at: amortized cost (AC) and fair value through other comprehensive income (FVOCI).

(3) Summary of Significant Accounting Policies, continued

- ***Amortized Cost (AC):***
  A financial asset is measured at amortized cost and not at fair value with changes in results if it meets both of the following conditions:

  - The asset is maintained within a business model whose objective is to maintain assets to obtain contractual cash flows; and

  - On specified dates, the contractual conditions of the financial asset give place, to cash flows that are only payments of principal and interest on the outstanding principal amount.

  Financial assets at amortized cost represent trade accounts receivable and other and bank deposits.

  After the initial recognition, these assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income and impairment are recognized in the income statement. Any gain or loss on an account derecognition is recognized in the income statement.

- ***Fair value through other comprehensive income (FVOCI)***
  A debt instrument is measured at FVOCI only if both of the following conditions are met and is not measured at fair value through profit or loss:

  - The asset is maintained within a business model whose objective is to collect contractual cash flows and sell these financial assets; and

  - On specified dates, the contractual conditions of the financial asset give place, to cash flows that are only payments of the principal and interest on the outstanding principal amount.

  These financial assets are composed of debt instruments not classified as financial instruments at fair value recognized in profit and loss (FVPL) or at amortized cost and are subject to the same approval criteria as the rest of the loan portfolio.

  After the initial recognition, these assets are subsequently measured at fair value. Interest income calculated under the effective interest method and impairment are recognized in the income statement. Other net gains and losses are recognized in the income statement.

  Unrealized gains or losses are reported as net increases or decreases in other comprehensive income in the statement of changes in equity until they are realized.

(3) Summary of Significant Accounting Policies, continued

- ***Evaluation of the business model***

The evaluation at the portfolio level and the objective of the business model that applies to the financial instruments of these portfolios includes the following:

- The policies and objectives set for the portfolio and the operation of those policies in practice that include the management strategy to define:

(i) collection of contractual interest income
(ii) maintain a defined interest yield profile
(iii) be able to sell at any time for liquidity needs or in order to optimize the risk / return profile of a portfolio based on interest rates, risk margins, current duration and the defined goal.

- The way in which the ACP senior management team and board of directors are informed about the behavior of the different portfolios;

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

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

- ***Evaluation of whether contractual cash flows are solely payments of principal and interest (SPPI)***

For the purpose of this evaluation, "principal" is defined as the fair value of the financial asset at the time of initial recognition. “Interest” is defined as the consideration of the value of money over time and the credit risk associated to the amount of the outstanding principal for a particular period of time and for other risks consistent with a basic loan agreement and other associated costs, as well as the profit margin.

In assessing whether contractual cash flows are solely payments of principal and interest, the ACP focused on the contractual terms of the instrument. This evaluation considered, among others:

- Contingent events that could change the amount and / or periodicity of cash flows
- Leverage conditions
- Advance payment terms and extension
- Terms that limit the ACP to obtain cash flows from specific assets (example, asset agreements without resources); and
- Characteristics that modify the considerations for the value of money over time (example, periodic review of interest rates).

(3) Summary of Significant Accounting Policies, continued

Accounting policies used before October 1, 2018:

Classification and measurement - Financial assets under IAS 39

Financial assets are classified in the following specific categories: receivables, investments held to maturity, financial assets available for sale and financial instruments designated as hedges recorded at fair value. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

- ***Trade and other receivable***

  Trade and other receivables are financial assets with fixed or determined payments that are not quoted in an active market. After initial recognition, trade accounts receivables are measured at amortized cost using the effective interest rate method, less any impairment.

- ***Advances and other receivable to contractors***

  Advances to contractors for the acquisition of physical assets, such as property, plant and equipment, are initially classified as a non-financial asset because the recovery is expected to be made through work and not with cash or another financial instrument. When these advances are expected to be settled in cash or through the execution of third-party guarantees, the ACP reclassifies the advance as a financial instrument in the account advances and other receivable to contractor, adjusted to its fair value which is determined by using a discount rate representative of the currency in which the instrument is defined, the expected term for collection and the debtor's credit risk at the time of reclassification. This adjustment is recognized as a loss in financial costs and amortized through the financial income account until the collection expected date.

- ***Investments held to maturity***

  Consist of deposits in banks whose payments are fixed or determinable or with a fixed maturity that the ACP intends to hold until they expire. After the initial measurement, investments held to maturity are measured at amortized cost using the effective interest rate method, less any impairment.

- ***Financial assets available for sale***

  Consist of securities acquired with the intention of keeping them for an indefinite period of time, which can be sold in response to liquidity needs or changes in interest rates. After their initial recognition, the securities available for sale are measured at their fair value. Gains or losses arising from changes in the fair value of the securities available for sale are directly recognized in the statement of equity until the financial assets have been written off or an impairment is being determined. At that time, the accumulated gain or loss, previously recognized in the statement of equity, is recognized in the income statement. The fair value of an investment in securities is generally determined based on the quoted market price at the date of the statement of financial position. If a reliable quoted market price is not available, the fair value of the instrument is estimated using models for price calculation or discounted cash flows techniques.

(3) Summary of Significant Accounting Policies, continued

Policy applicable as of October 1, 2018:

Impairment of financial assets

At the date of the statement of financial position, it is determined whether there is an objective evidence of impairment in the financial instruments, and it is used the reserve method to provide for losses in the financial instruments.

The IFRS 9 replaces the "incurred loss" model in IAS 39 with an “expected credit loss" (ECL) model.

The new impairment model is applicable to the following financial assets:

- Trade and other accounts receivable
- Bank deposits
- Debt instruments

The assessment of whether credit risk of a financial asset has significantly increased is one of the implemented critical judgments in the impairment model.

Loss allowances are recognized for the amount equivalent to the 12-month ECL or for the residual maturity of the financial asset, whichever is the lower, in the following cases:

- Trade and other accounts receivable on which the credit risk has not significantly increased since its initial recognition;

- Investments in debt instruments, demand deposits and time deposits that are determined to reflect low credit risk at the reporting date.

For all other cases, allowances are recognized at an amount equal to the assets’ lifetime ECL.

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

- ***Measurement of the ECL***

  The ECL is an estimated weighted probability of credit loss which is measured according to the following items:

  Financial assets that are not credit-impaired at the reporting date: the present value of all arrears of contractual cash payments (example, the difference between the cash flows owed and the cash flows that the ACP expects to receive).

  Impaired financial assets at the reporting date: the difference between the book value and the present value of the estimated future cash flows.

(3) Summary of Significant Accounting Policies, continued

- ***Definition of impairment***

  It is considered an impaired financial asset when:

  - It is unlikely that the debtor will fully pay his credit obligations to the ACP, without resources from the ACP to take actions such as executing the collateral (in case they maintain it); or
  - The debtor has delinquency of more than 90 days in any significant credit obligation.
  - For the fixed income financial instruments the following concepts are included, among others:

    - Low external rating of the issuer;
    - Contractual payments are not made on the due date or in the stipulated period or grace period;
    - There is a virtual certainty of suspension of payments;
    - Its likely to go bankrupt or file a bankruptcy petition or similar action;
    - The financial asset stops trading in an active market given its financial difficulties.

  In assessing whether a debtor is in default, the following indicators are considered:

  - Qualitative (for example, breach of contractual clauses);
  - Quantitative (for example, delinquency status and non-payment on another obligation of the same issuer to the ACP); and

  The inputs used in the evaluation of whether financial assets are impaired and their importance may vary over time to reflect changes in circumstances.

- ***Significant increase in credit risk***

  To determine whether the credit risk of a financial asset has increased significantly since its initial recognition, considers reasonable and sustainable information that is relevant and available without disproportionate cost or effort, including information and analysis of a quantitative and qualitative nature based on historical experience and the expert evaluation of credit including future projections.

  It is considered as the main indicators of the significant increase in risk, the variations in the risk rating and the atypical increases in the credit margin or in the reference prices of the credit default swaps (CDS) of the financial instruments.

- ***Credit Risk Rating***

  A credit risk rating is assigned to financial assets that do not have an available international credit risk rating. The ACP identifies significant increases in credit risk through the use of a quantitative model of payment default prediction that assigns a credit rating equivalent to that of Standard & Poors and the application of expert credit judgment.

(3) Summary of Significant Accounting Policies, continued

For investments in debt instruments and time deposits, credit risk rating of international short-term investment from Standard & Poors, Moody's and Fitch Ratings and its changes are used to establish whether there is a significant increase in risk and for the PD calculation.

At initial recognition a credit rating is assigned to each exposure based on available information about the debtor. Exposures will be subject to continuous monitoring, which may result in the change to a different credit risk rating.

- ***Generating the probability of default (PD) term structure***

  Credit risk ratings are the main input to determine the PD term structure for different exposures.

  The PD of investments in debt instruments, deposits in banks and advances and other accounts receivable is estimated using approximates of liquid markets based on international credit risk rating of investments or deposits.

- ***Assessment of significant increase in credit risk***

  A general framework has been established that incorporates quantitative and qualitative information to assess whether the credit risk of a financial asset has increased significantly since its initial recognition.

  The initial framework is aligned with the internal process of the ACP for credit risk management. The criteria for determining whether the credit risk has increased significantly will vary by portfolio and will include limits based on defaults.

  The ACP assess whether the credit risk of a particular exposure has increased if, based on a quantitative model, the probability of expected credit loss in the remaining life increased significantly since the initial recognition. In determining the increase in credit risk, the expected credit loss in the remaining life is adjusted for changes in maturities.

  In certain circumstances, by using credit experts judgment and relevant historical information, the ACP may determine that an exposure has experienced a significant increase in credit risk if qualitative factors indicate so and those factors may not be fully captured by the quantitative analyzes performed periodically.

  The effectiveness of the criteria used to identify significant increases in credit risk is monitored through regular reviews.

- ***Inputs in the measurement of the ECL***

  The following variables are key inputs used in measuring ECL:

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

(3) Summary of Significant Accounting Policies, continued

PD is the probability of default of one year applied to the portfolio for expected losses of less than 12 months and during the lifetime for expected losses of more than 12 months. The default rates are obtained from the Bloomberg system (1-yr Default Probability) for counterparties that have a credit risk rating. For financial instruments that do not have a credit risk rating, the S&P Global Income Research and S&P Creditpro transition table is used as a source.

The LGD for financial assets is the estimated loss percentage of the amount exposed in case of default. The LGD is obtained from the Bloomberg system for counterparties that have a credit risk rating. For financial instruments that do not have a credit risk rating, Bloomberg (1-yr Default Probability and Loss Given Default) are used in the same way.

The EAD is the accounting balance of the principal amount and interest on financial assets at the end of the period under review.

Policy applicable before October 1, 2018:
Impairment of financial assets
The ACP assesses whether there is objective evidence that a financial asset is impaired at each statement of financial position date. A financial asset is impaired if there is evidence that as a result of one or more events that occurred after the initial recognition of the asset, there has been a negative impact on its estimated future cash flows.

- ***Derecognition of financial assets***
  A financial asset is derecognized only when the contractual rights to receive the cash flows from the asset have expired; or when all the risks and rewards of ownership of the financial asset have been transferred substantially. If all the risks and rewards of the property are not transferred or substantially withheld and control of the transferred asset is continued, then the interest withheld on the asset and a related liability for the amounts that it may have to pay are recognized. If substantially all the risks and rewards of ownership of a transferred financial asset are retained, the financial asset continues to be recognized and a guaranteed liability is also recognized for the amount received.

- ***Financial liabilities***
  Financial liabilities are initially recognized at fair value in addition to the direct transaction costs. After initial recognition, the financial liabilities are measured at amortized cost using the effective interest rate method.

  The profit or loss is recognized in the income statement when a financial liability is derecognized as well as through the amortization process.

  Financial liabilities include borrowings and bonds issued, trade and other payables, and other financial liabilities.

- ***Borrowings and bonds payable***
  Borrowings and bonds payable are initially recognized at fair value at their respective contractual dates, including the costs attributable to the transaction.

(3) Summary of Significant Accounting Policies, continued

After its initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method. The amortized cost is calculated considering any premium or discount at the time of purchase and the wages or fees that belong to the effective interest rate.

- ***Trade and other payable***
  Accounts payable do not earn interest and are booked at their face value.

- ***Other financial liabilities***
  Heading financial instruments are initially recognized at fair value at the date the hedge contract is entered into, and are subsequently measured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately, except for the effective portion of a hedging instrument for which the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The ACP designates certain financial instruments as hedges of a transaction previously seen as highly exposed to changes in cash flows either attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transactions, or the foreign currency risk of firm commitments (cash flow hedge).

  A financial instrument with a positive fair value is recognized as a financial asset, while a financial instrument with a negative fair value is recognized as a financial liability. A financial instrument is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months.

Policy applicable as of October 1, 2018:
Hedge accounting

- The ACP applies IFRS 9- “Financial Instruments” hedge accounting rules in full.

- The financial instruments held for risk management purposes are measured at fair value in the statement of financial position. These instruments are initially recognized at fair value at the date a hedging contract is entered into and are subsequently remeasured to their fair value at each reporting date.

- On initial designation of the hedge, the ACP formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The ACP makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated.

- The ACP uses financial instruments designated as hedges to manage the interest rate risks and the variability of light diesel prices used in its operations.

- These financial instruments contracts designated as hedges are classified as cash flow hedges. They are reported as assets or liabilities, as applicable.

(3) Summary of Significant Accounting Policies, continued

- In order to qualify for hedge accounting, these instruments must be considered highly effective at reducing the risk associated with the exposure being hedged. Each instrument must be designated as a hedge, with documentation of the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure, as well as how effectiveness will be assessed prospectively. Any ineffectiveness must be reported in current-year profit or loss.

Hedge accounting relationship

- When the ACP enters into a hedge accounting relationship, the first requirement is that the hedging instrument and the hedged item must be expected to move in the opposite direction as a result of the change in the hedged risk.
- This requirement is fulfilled for the hedging relationships carried by the ACP as the underlying of the hedging instrument matches or is closely aligned with the hedged risk.
- The ACP makes a qualitative assessment which considers the following: a) maturity; b) nominal amount; c) cash flow dates; d) interest rate basis; and e) credit risk,

Hedge ratio

- The hedge ratio is the relation between the amount of hedged item and the amount of the hedging instrument. For most of the hedging relationships, the hedge ratio is 1:1 as the underlying of the hedging instrument perfectly matches the designated hedged risk. For a hedging relationship with a correlation between the hedged item and the hedging instrument that is not 1:1 relationship, generally set the hedge ratio so as to adjust for the type of relation in order to improve effectiveness.

Discontinuation of hedge accounting

- The ACP discontinues hedge accounting prospectively in the following situations:

1. It is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item.
2. The derivative expires or is sold, terminated or exercised.
3. It is determined that designation of the derivative as a hedging instrument is no longer appropriate.

The ACP carries all financial instruments designated as hedges in the statement of financial position at fair value.

Cash flow hedges

- When a financial instrument is designated as the hedging instrument in a hedge of variability in cash flows attributable to a particular risk associated with a recognized asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and recognized in profit or loss when the hedged cash flows affect earnings. The ineffective portion is recognized in profit or loss as loss on financial instruments, net.

(3) Summary of Significant Accounting Policies, continued

- If the cash flow hedge relationship is terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively and the related amounts in other comprehensive income are reclassified into profit or loss when hedged cash flows occurs.

Accounting policies used before October 1, 2018
Hedge accounting
The ACP designates certain financial instruments as cash flow hedges.
At inception date of the hedge, the ACP documents the hedging relationship and the objective and risk management strategy to undertake the hedging transaction. The documentation shall include the identification of the hedging instrument, the hedged transaction or instrument, the nature of the hedged risk and the manner in which the effectiveness of the hedging instrument will be measured to compensate the exposure to changes in the fair value of the hedged item or the changes in the cash flows of the hedged risk. These hedges are expected to be highly effective in order to mitigate changes in cash flows.

- ***Cash flow hedges***
  The effective portion of changes in the fair value of financial instruments that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

  Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, within the same line of the income statement as the recognized hedged item. However, when a transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the nonfinancial asset or the non-financial liability.

  Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss accumulated in equity is recycle from equity to the income statement.

- ***Derecognition of financial liabilities***
  A financial liability is derecognized if it expires, cancels or fulfills the obligations of the ACP and when its conditions are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability is recognized based on the new conditions at fair value.

(3) Summary of Significant Accounting Policies, continued

(r) New International Financial Reporting Standards (IFRS) and Interpretations not yet adopted

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

IFRS 16 Leases

IFRS 16 replaces the current IAS 17 Leases standard. IFRS 16 Leases will be effective for ACP as of October 1, 2019.

IFRS 16 changes the way of the lease accounting for lessees, using a unique model to account for such transactions. This unique model determines that a lessee must recognize a right-of-use asset, which represents his right to use the underlying asset, and a lease liability, which represents his obligation to make future lease payments.

IFRS 16 includes exemptions for its application for short-term leases and leases in which the underlying asset is of low value.

For leases recognized as financial in accordance to IAS 17, no significant impact is expected from the adoption of IFRS 16.

Transition

The ACP will apply IFRS 16, as of October 1, 2019, using the modified retrospective approach. This approach establishes the following in relation to recognition and measurement:

Lease Liability

It will be recognized at the date of initial application for leases previously classified as operating leases. It will be measured as the present value of the remaining lease payments, discounted at the incremental borrowing rate of the ACP at the date of the initial application.

Right-to-use asset

It will be recognized at the date of initial application for leases previously classified as operating leases. It will be measured at an amount equivalent to the lease liability, adjusted by the amount of any lease payments advanced or caused in relation with that lease recognized in the statement of financial position immediately before the date of the initial application.

The information presented in the financial statements for the year 2018 will not be re-expressed.

The ACP has decided to apply the exemption from the standard for existing leases to give continuity to the definition of lease on the transition date. This means that it will apply IFRS 16 to all contracts concluded before October 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 46.

Preliminary Impact Assessment

The ACP has evaluated the estimated impact that the initial application of IFRS 16 will have on its financial statements, based on its lease agreements.

(3) Summary of Significant Accounting Policies, continued

The preliminary assessment estimates that as of October 1, 2019, the right-of-use assets and lease liabilities will represent an amount of approximately B/.13,593 according to the information currently available. That is, an approximate increase of 0.09% in assets and 0.38% in debt. A slight impact on profitability indicators is expected.

For the year 2020, it is estimated a decrease of B/.4,873 in the lease expense, an increase in the depreciation of B/.4,732; and an increase in interest expense of B/.229.

Amendments to IFRS 9: Prepayment features with negative compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or to fair value through other comprehensive income, provided that the contractual cash flows are “solely payments of principal and interest on the principal amount outstanding” (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The modifications will be applied retroactively to the reporting periods beginning on January 1, 2019 or later, allowing early application.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of an entity.

(3) Summary of Significant Accounting Policies, continued

Annual Improvements 2015-2017 Cycle

These improvements include:

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are completed.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application allowed. Since the ACP current practice is in line with these amendments, the entity does not expect any effect on its financial statements.

Critical accounting judgments and key sources of estimation uncertainty

These financial statements are prepared in conformity with IFRS which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Future actual results could differ from those estimates. Significant estimates for these financial statements include, but are not limited to the:

- determination of the useful life of fixed assets (note 4);
- claims registered or disclosed from or directed to the main ACP contractors (notes 5 and 26);
- recoverability of property, plant, and equipment, including construction in progress balances (note 4);
- fair value of financial instruments (note 26);
- estimated actuarial liability for the defined benefit plans for employee retirement and the right to reimbursement on these plans (note 25); and
- estimates for the provision for marine accident claims and contingent liabilities (notes 20 and 30, respectively).

(4) Property, Plant and Equipment

Property, plant, and equipment are detailed as follows:

Cost	Buildings	Structures	Equipments	Lands	Constructions in progress	Total
At the beginning of fiscal year 2018	206,801	5,615,088	2,931,619	1,023,137	558,595	10,335,240
Additions and other adjustments	418	71,425	32,722	0	70,759	175,144
Retirements	(226)	(1,064)	(16,437)	0	0	(17,727)
At the end of fiscal year 2018	206,993	5,685,269	2,947,904	1,023,137	629,354	10,492,657
Additions and other adjustments	9,140	582,343	64,807	181	(460,609)	195,862
Retirements	(64)	(864)	(33,391)	0	0	(34,319)
At the end of fiscal year 2019	216,069	6,266,748	2,979,320	1,023,318	168,745	10,654,200

Accumulated depreciation	Buildings	Structures	Equipments	Lands	Constructions in progress	Total
At the beginning of fiscal year 2018	(46,403)	(472,641)	(837,585)	0	0	(1,356,629)
Depreciation	(4,260)	(95,061)	(111,392)	0	0	(210,713)
Retirements	158	984	16,007	0	0	17,149
At the end of fiscal year 2018	(50,505)	(566,718)	(932,970)	0	0	(1,550,193)
Depreciation	(4,780)	(95,006)	(110,947)	0	0	(210,733)
Retirements	63	361	33,204	0	0	33,628
At the end of fiscal year 2019	(55,222)	(661,363)	(1,010,713)	0	0	(1,727,298)
Net book value						
At the end of fiscal year 2019	160,847	5,605,385	1,968,607	1,023,138	168,745	8,926,902
At the end of fiscal year 2018	156,488	5,118,551	2,014,934	1,023,137	629,354	8,942,464

Construction in progress is detailed as follows:

	Investment Program - Canal Expansion	Investment Program - Other	Constructions in Progress Total
Balance as of October 1, 2017	5,681	552,914	558,595
Additions	3,884	149,036	152,920
Transfers to property, plant and equipment	(4,659)	(100,182)	(104,841)
Interests, commissions and other financing expenses	0	22,680	22,680
Balance as of September 30, 2018	4,906	624,448	629,354
Additions	3,440	192,279	195,719
Transfers to property, plant and equipment	(1,681)	(654,647)	(656,328)
Balance as of September 30, 2019	6,665	162,080	168,745

In compliance with Law 28 of July 17, 2006, issued by the Executive Branch, the proposal for the construction of the Panama Canal third set of locks was approved. On October 22, 2006, the people of Panama approved the Canal Expansion Program (*the Program*) through a national referendum in accordance with the constitutional requirement. The project for the Design and Construction of the Third Set of Locks was the main component of the Program.

The ACP started commercial operations of the third set of locks in the third quarter of 2016. During 2019, the Panama Canal Expansion Program capitalized B/.1,681 (2018: B/.4,659). The assets of the program were composed as follows: B/.76,593 for 103 buildings; B/.4,378,013 for 100 structures and B/.1,278,726 for 358 equipments. Also, during the construction period and previous the fiscal year 2016, costs from this program in the amount of B/.3,517 were capitalized in 32 assets of common use in ACP. In total, an amount of B/.5.736,849 was capitalized in 593 assets.

(4) Property, Plant and Equipment, continued

The ACP keeps in effect a Payment Bond of B/.50,000 issued by an insurance company which guarantees payment from GUPCSA, of labor, materials and equipment used for the execution of the contract for Design and Construction of the Third Set of Locks. Also, a Performance and Defects Guarantee for a total of B/.200,000, consisting of a Payment Bond B/.50,000 issued by an insurer, and joint and several corporate guarantees for a total of B/.150,000. Both insurers have international investment grade granted by Standard & Poors.

As of September 30, 2019, the total amount of construction in progress for the Investment Program – Others was B/.168,745.

During 2019, the ACP recorded losses for impairment in equipment for an amount of B/.692 (2018: B/.577).

Depreciation on September 30, 2019, B/.1,899 (2018: B/.1,765) corresponded to equipment used in investment projects that were capitalized as property, plant and equipment. (Note 22).

(5) Advances and Other Receivable to Contractor, Net

	2019	2018
Advances with bank guarantees:		
Mobilization	0	247,959
Plant	0	300,000
	0	547,959
Advances with corporate guarantees:		
Specified suppliers	0	66,979
Lock gates	0	12,754
Specified expenditures	0	99,995
Subcontractors and suppliers	0	119,943
	0	299,671
Plus: reimbursement for legal expenditures	0	0
	0	847,630
Less: financial adjustment to amortize	0	7,519
Total for advances and other receivable to contractor, net	0	840,111

During the year 2019, the discount was amortized to financial income for B/.7,519 (2018: B/8,640) to the account financial income on advances and other accounts receivable to contractor).

The expected maturity of the advances and other receivable to contractor is as follows:

	2019	2018
Current assets	0	547,959
Non-current	0	292,152
	0	840,111

GUPCSA is the contractor project company which is responsible of the contract for the Design and construction of the third set of locks of the Panama Canal, and its shareholders are Sacyr Vallehermoso, S.A., Jan de Nul N.V., Salini-Impregilo S.p.A, and Constructora Urbana, S.A. (CUSA).

(5) Advances and Other Receivable to Contractor, Net, continued

According to the December 12, 2018 award of the advance arbitration ("the award"), the Canal executed the three letters of credit issued by two local banks, for the sum of B/.547,959. The ACP charged the advances of corporate guarantees on November 30, 2018 for B/.12,000, on February 22, 2019 for B/.123,933 and on March 8, 2019 for B/.186,401, which completes the recovery of the total amount of B/.299,671, plus interest for B/.20,293 and part of the legal costs for B/.2,370 failed in the award.

Grupo Unidos por el Canal, S.A. (GUPCSA), the Contractor (the "Contractor") for the Design and Construction of the Third Set of Locks, filed an international arbitration under the rules of the International Chamber of Commerce (ICC) on the interpretation of the repayment date of advance payments arguing that the advances were not due, and consequently were not liquid or enforceable. On December 12, 2018, the arbitral tribunal issued an award in favor of the ACP determining that the Contractor was obligated to and should immediately pay to the ACP all overdue advances in the amount of B/.847,630, plus interest, as well as amounts of legal costs and expenses that the ACP had incurred in connection with this arbitration.

On December 13, 2018, the ACP made demand and received payment under: (i) three letters of credit, issued by two Panamanian banks, which guaranteed the repayment of the mobilization and plant advances in the amount of B/.547,959; and, (ii) a letter of credit guaranteeing the payment of interest generated by the lack of timely payment of said advances, in the amount of B/.13,187, issued by a bank in London, England.

In addition, the ACP commenced an arbitration against the issuer of an advance payment bond securing repayment of an advance payment related to the locks gates works. The arbitral tribunal issued an award in favor of the ACP, ordering the issuer of such bond to pay the ACP the sum of B/.12,000, in respect of such advance payment owed by the GUPCSA, as well as B/.2,275 for payment to the ACP of interest at an annual rate of 10% and costs and expenses incurred by the ACP in the arbitration process.

Further, the ACP also commenced proceedings before the English courts to enforce certain English law-governed corporate guarantees issued by the three European shareholders of the Contractor and one of the parent companies of one of said shareholders, seeking collection of outstanding amounts payable of certain other advances guaranteed for such English law-governed corporate guarantees. This process ended with a judgment issued by the Court entitling the ACP to receive the payment of B/.123,933 on February 22, 2019 and B/.186,401 on March 8, 2019, which included amounts to make payment of said advances, interest and a portion of the legal costs incurred by the ACP in such proceeding, in the sum of B/.22,662.

Through these legal proceedings, the ACP completed the successful recovery of all outstanding amounts of the advance payments owed by GUPCSA plus associated amounts of interest and partial payment t of the legal costs that ACP incurred in relation to said recoveries.

(6) Trade and Other Receivables

Trade and other current receivables are detailed as follows:

	2019	2018
Transits	6,420	28,108
Sale of electricity and power	10,930	5,809
Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	6,171	7,545
Other government entities	15,683	8,789
Other services	2,159	3,976
	41,363	54,227

Accounts receivable do not generate interest and the maturity term is 30 days.

Aging of past due but not impaired receivables:

	2019	2018
60 – 90 days	4	86
90 – 180 days	24	2
	28	88

(7) Investment Properties

The following table presents details of investment properties at September 30, 2019:

	2019	2018
Lands and buildings	89,831	89,831
Cinema for the screeing of large format films - IMAX	7,563	0
Total	97,394	89,831

(7) Investment Properties, continued

As of September 30, 2019, the carrying value of the ACP's investment properties made the following changes in relation to fiscal year 2018. They are composed of:

- An area of 180,345 square meters of land, water surface and underwater background, granted in concession to the Panama International Terminal, S.A. (PSA) for a period of 20 years (with a renewal option for the same period subject to ACP determination) to develop, build, operate and manage a container yard and two docks with a total length of 797 linear meters, with a book value of B/.52 and fair value of B/.117,835. Upon termination of the contract, all facilities such as docks, buildings and other improvements constructed within the port will become property of the ACP free of any debt and lien. The ACP may terminate this concession contract early, if it determines that the use or activity is no longer compatible with the operation of the Canal, or the area is required for the operation or expansion of the Canal. Upon termination of the contract under these circumstances, the ACP will be obliged to pay the Concessionaire a compensation limited to the total amount of the cost of design and construction of the installations and dredging works made in the area of the concession, which has been previously authorized by the ACP. To the amount of the cost of the facilities built and dredging works made, the ACP will deduct a proportional depreciation leading to zero the value of the compensation, within a period not to exceed twenty (20) years from the start of operations of the container terminal.

- An area of 1,499.95 square meters granted in concession to Large Screen Cinema Corp., for the construction of a large format cinema, for a period of 10 years, renewable for another 10 years period with a book value of B/.22. In January 2019, the concessionaire formally transferred, free of charges and free title to the Autoridad del Canal de Panamá, the building, upgrades and permanent equipment built on a plot of property 196761, consisting of a Cinema for the projection of large-format, IMAX theater filming with a fair value of B/.7,705.

- A land with an area of 464,759.71 square meters, located on the east bank to the south end (Pacific) of the Canal bordering the Canal channel and other land owned by the ACP, with a book value of B/.89,757 and fair value of B/.90,628 as per independent appraisal from 2015. The ACP purchased the land for its strategic value for the development of complementary profitable operation of the Canal activities.

- Twenty-five buildings currently leased by the ACP. These buildings are fully depreciated and have a fair value of B/.24,965, which was estimated based on the analysis of operating cash flow discounted at a representative rate for this type of business.

  The fair value of land given in concession is calculated using a discounted cash flow analysis performed on the contractual cash flow of the concession with a discount rate derived from the internal rate of return expected for similar concessions.

(8) Inventories, Net

Inventories are detailed as follows:

	2019	2018
Supplies and materials	67,021	73,075
Fuel	7,466	11,914
Provision for inventory obsolescence	(5,600)	(4,084)
	68,887	80,905
Current	7,466	11,914
Non-current	61,421	68,991
	68,887	80,905

The change in the estimate for obsolescence of supplies and materials inventory is as follows:

	2019	2018
Balance at the beginning of the year	4,084	4,000
Increase	1,944	500
Write-off	(428)	(416)
Balance at the end of the year	5,600	4,084

The amount of material and supplies recognized during fiscal year 2019 in the income statement was B/.43,112 (2018: B/.37,445).

The amount of fuel recognized during fiscal year 2019 in the income statement was B/.72,957 (2018:B/.70,806).

The ACP classified its inventories as non-current when it is expected that they will be used or consumed in the operation in a period of more than twelve months.

(9) Other Financial Assets

As of September 30, 2019, other financial assets are detailed as follows:

	2019	
	Book value	Fair value
Financial instruments measured at amortized cost:		
Time deposits over 90 days	1,515,512	1,519,248
Accrued interest receivable	27,724	27,724
	1,543,236	1,546,972
Financial instruments measured at fair value with changes in other comprehensive income (FVOCI):		
Corporate debt securities	2,770,136	2,770,136
Financial instruments designated as hedge instruments measured as fair value:		
Commodity call option contract	1,020	1,020
	4,314,392	4,318,128

(9) Other Financial Assets, continued

During fiscal year 2019, the financial instruments measured at fair value with changes in other comprehensive income (FVOCI) generated a unrealized income of B/.3,465, that was recognized in other comprehensive income.

During fiscal year 2019, sales of financial instruments at FVOCI were B/.331,384 (securities available for sale 2018: B/.75,794) with a realized net loss for (B/.394) and 2018: (B/.143).

During fiscal year 2019, financial instruments for B/.3,735,092 (2018: B/.2,791,579) were collected upon expiration.

As September 30, 2018, the other financial assets are detailed as follows:

	2018	
	Book value	Fair value
Investments held to maturity, measured at amortized cost:		
Time deposits over 90 days	1,230,000	1,230,000
Accrued interest receivable	16,690	16,690
	1,246,690	1,246,690
Securities available for sale, measured at fair value:		
Corporate debt securities	2,042,558	2,042,558
Financial instruments designated as hedge instruments measured as fair value:		
Interest rate swap	4,124	4,124
Commodity price swap contract	2,078	2,078
	3,295,450	3,295,450

During fiscal year 2018, the available for sale financial instruments generated a unrealized income of B/.240, that was recognized in other comprehensive income.

The Organic Law establishes that the ACP's funds must be placed in short-term investment grade debt instruments and may not be used to buy other types of investment financial instruments issued by Panamanian or foreign public or private entities, neither to grant loans to said entities nor to the National Government.

Investments in securities and time deposits are negotiated and recorded in US dollars. All the ACP's investments were placed in instruments with an investment grade and have a short-term maturity. At September 30, 2019, the annual interest rate of return of other financial assets (excluding current and saving accounts) was 2.93% (September 30, 2018: 2.10%) paid at the end of each term and with a maximum maturity of a year.

Financial instruments designated as hedge instruments:
With the objective of hedging the risk of variability of future cash flows attributable to the price fluctuation of light diesel that the ACP will purchase during fiscal year 2020 for its operations, the ACP subscribed on September 19, 2019 a call option, Asian style contract effective October 1, 2019.

(10) Accrued Interest Receivable

Accrued interest receivable are detailed as follows:

	2019	**2018**
Corporate debt securities	25,127	22,773

(11) Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following:

	2019	**2018**
Cash on hand	41	46
Deposits in current accounts	18,826	5,182
Deposits in saving accounts	24,877	55,055
Time deposits with original maturities under 90 days	14,001	0
Accrued interest receivable	87	56
Total cash and cash equivalents	57,832	60,339

Cash deposit in bank accounts earns interest based on daily rates determined by correspondent banks. At September 30, 2019, these resources has the priority to cover ACP obligations and earns interest rates which vary between 0.08% and 2.5% (2018: 0.1% and 2%).

As of September 30, 2019 and as of September 30, 2018, there were no restrictions over the balance of cash and cash equivalents.

(12) Contributed Capital

Article 316 of the Political Constitution of the Republic of Panama states that the ACP has its own patrimony and the right to manage it. Upon the transfer of the Canal to the Republic of Panama at noon on December 31, 1999, the ACP became the administrator of all goods and real estate property identified in the Organic Law of the ACP as the required patrimony to operate and maintain the Canal.

This patrimony is divided into two groups: the inalienable patrimony, comprised of land, lakes, rivers, dams, locks and anchorages, as established in Article 2 of the Organic Law; and the economic patrimony, comprised of all those installations, buildings, structures and equipment that support the operation of the Canal, as established in Article 33 of the same Law. During fiscal year 2019, the Republic of Panama transferred as a donation to the ACP, a lot of land for an amount of B/.143.

(13) Contributions for Investment Programs, Payment of borrowings and Reserves

Changes in investment programs contributions, payment of borrowings contributions, and reserves, as of September 30, 2019, are detailed as follows:

	2019	Increase (decrease)	2018	Increase (decrease)	2017
Contributions:					
Investment programs	5,920,696	(32,061)	5,952,757	(33,078)	5,985,835
Payment of borrowings	115,000	115,000	0	0	0
	6,035,696	82,939	5,952,757	(33,078)	5,985,835
Reserves:					
Catastrofic risks	36,000	0	36,000	0	36,000
Contingencies and working capital	264,120	8,640	255,480	32,360	223,120
Enterprise capitalization	274,969	0	274,969	0	274,969
Strategic for investment programs	695,500	150,500	545,000	155,000	390,000
	1,270,589	159,140	1,111,449	187,360	924,089
Total	7,306,285	242,079	7,064,206	154,282	6,909,924

Investment programs

At September 30, 2019, the ACP decreased the funds of the investments programs by B/.32,061 (2018: -B/.33,078) for a contributed total of B/.2,208,280 (2018: B/.1,692,382) for the Investment program – Others and a decrease in the contributions for the Investment program – Canal expansion of B/.547,959 (2018: B/.0) for a contributed total of B/.3,712,416 (2018: B/.4,260,375) for the Investment program – Canal expansion. This contribution includes a contingency amount for regular investment program, which is set each year; the unused balance is transfer to surplus at end of period.

Payment of borrowings

At September 30, 2019, the ACP contributed with B/.115,000 (2018: B/.0) for the payment of borrowings, for a contributed total of B/.115,000.

Catastrophic Risks

The ACP maintains an equity reserve to cover the deductibles of the catastrophic risks insurance policies of B/.36,000.

Contingencies and working capital

The ACP maintains an equity reserve for contingencies and working capital, which is calculated, based on the ACP's level of revenues, and is defined as 30 days of average revenues or billing of the Canal. During fiscal year 2019, it was approved to increase this reserve by B/.8,640 while in fiscal year 2018, it was approved to increase this reserve by B/.32,360 for a total reserve of B/.264,120 (2018: B/.255,480).

(13) Contributions for Investment Programs, Payment of borrowings and Reserves, continued
Enterprise capitalization

The ACP maintains an equity reserve for capitalization in order to ensure and facilitate the long-term financial projection of the ACP. During fiscal year 2019 and fiscal year 2018, this reserve was not adjusted and maintains a balance of B/.274,969.

Strategic for investment programs

The ACP established an equity reserve to maintain strategic sustainability and competitiveness of the Canal, ahead ensuring the availability of funds to meet additional needs of existing investment projects and to take advantage of growth opportunities requiring the implementation of new investment projects. During fiscal year 2019, it was approved to increase this reserve by B/.150,500 (2018: B/.155,000) for a total reserve of B/.695,500 (2018: B/.545,000).

The Organic Law establishes that, after covering the costs for operation, investment, modernization, and expansion of the Canal, as well as the necessary reserves provided by the Law and Regulations, any surplus shall be forwarded to the National Treasury in the following fiscal period.

(14) Other Equity Accounts – Components of Other Comprehensive income

Other equity accounts are composed entirely by the unrealized gain (loss) for the evaluation of the cash flows hedging instruments and for the unrealized (loss) in actuarial valuations of the defined post-employment benefit plans and unrealized gain (loss) in financial instruments.

Adjustments during the year to the other equity accounts – other comprehensive income are as follows:

	2019	2018
Balance at the beginning of the year	(56,959)	(118,449)
Adoption impact of IFRS 9 as of October 1, 2018	754	0
	(56,205)	(118,449)
Actuarial valuations:		
Net remeasurement gains (losses) of employee defined benefit plans	(1,510)	566
Other comprehensive income not to be reclassified to profit or loss	(1,510)	566
Financial instruments:		
Reclassification of losses on financial instruments to profit for the year	(171)	0
Fair value with changes in other comprehensive income:		
Net unrealized gain during the year	3,465	240
Commodity Call option and Price swap contracts: net unrealized income (loss) of non-yet matured contracts	(1,058)	2,078
Cash flow hedges:		
Interest rate swap contracts:		
Reclassification of gains to income statement	13,806	16,655
net income (loss) of non-yet matured contracts	(61,648)	41,951
Other comprehensive income to be reclassified to profit or loss	(45,606)	60,924
(Loss) income during the year	(47,116)	61,490
Balance at the end of the year	(103,321)	(56,959)

(15) Unappropriated Retained Earnings

The Organic Law establishes that after covering the costs for the investment program and the reserves detailed in note 13, any surplus shall be remitted to the Panamanian Treasury in the following fiscal period. Therefore, the ACP should transfer the total amount of B/.1,251,892 to the Panamanian Treasury which corresponds to the year ended September 30, 2019 (2018: B/.1,199,101). (See note 31).

Detail of payments to the Panamanian Treasury is as follows:

	2019	**2018**
Payments to the Panamanian Treasury:		
Fees per net ton	532,583	501,548
Public service fees	1,938	2,138
Sub-total	534,521	503,686
Unappropriated retained earnings (see note 31)	1,251,892	1,199,101
Total	1,786,413	1,702,787

(16) Borrowings

Financing received for the Canal Expansion Investment Program, presented at amortized cost, is detailed as follows:

Credit Facilities	**Interest Rate %**	**Maturity Date**	**2019**	**2018**
European Investment Bank (BEI)	Libor 6 months + 0.811	15-Nov-28	285,000	300,000
European Investment Bank (BEI)	Libor 6 months + 0.824	15-Nov-28	95,000	100,000
European Investment Bank (BEI)	5.196	15-Nov-28	95,000	100,000
Development Bank of Latin America (CAF)	Libor 6 months + 1.20	15-Nov-28	142,500	150,000
Development Bank of Latin America (CAF)	Libor 6 months + 1.40	15-Nov-28	142,500	150,000
International Finance Corporation (IFC)	Libor 6 months + 1.30	15-Nov-28	285,000	300,000
Inter-American Development Bank (BID)	Libor 6 months + 1.05	15-Nov-28	380,000	400,000
Japan Bank for International Cooperation (JBIC)	Libor 6 months + 0.75	15-Nov-28	760,000	800,000
			2,185,000	2,300,000
	Accrued interest payable		30,530	31,520
			2,215,530	2,331,520

These credit facilities were subscribed under the Common Terms Agreement, to partially finance the Canal Expansion Program. ACP made the first principal payment for B/.115,000 on May 15, 2019, and will pay the same amount semi-annually until final due date, November 15, 2028.

	2019	**2018**
Current borrowings	230,000	115,000
Non-current borrowings	1,955,000	2,185,000
Accrued interest payable	30,530	31,520
Total	2,215,530	2,331,520

(16) Borrowings, continued

The ACP complies with the obligation to report annually to the five multilateral agencies that gave loans, the situation of the following two financial ratios: Total Debt to EBITDA and the Debt Service Coverage.

	2019	2018
Total debt to EBITDA Ratio	1.6	1.8
Debt Service Coverage Ratio	6.3	10.6

- Before the completion of the Expansion Program, the total debt to EBITDA ratio should maintain as of the end of every semi-annual fiscal period of the ACP, a ratio of less than 3.0 for such measurement period.

  Total debt to EBITDA ratio, after completion of the Expansion Program, should maintain, as of the end of every semi-annual fiscal period of the ACP, a ratio less than 2.5 for such measurement period.

- Before the completion of the Expansion Program, the debt service coverage ratio should maintain at the end of every semi-annual fiscal period of the ACP, a ratio of no less than 5.0 for such measurement period.

  Debt service coverage ratio, after completion of the Expansion Program, should maintain at the end of every semi-annual fiscal period of the ACP, a ratio of no less than 3.0 for such measurement period.

  Debt service means, for any period or at any time, as the context may require, the sum of regularly scheduled interest payable on and amortization of debt discount in respect of all debt for borrowed money, plus regularly scheduled principal amounts of all debt for borrowed money payable.

  As of September 30, 2019, the ACP was in compliance with the aforementioned restrictive financial covenants.

  The interests, cash flow hedges and other financing costs for the year ended September 30, 2019, are detailed as follows:

	2019	2018
Interest on loans	107,893	92,222
Cash flow hedges	13,806	16,655
Other expenses	782	733
Total interests, cash flow hedges and other financing costs	122,481	109,610
Less: amount of capitalized financing costs	(19,242)	(22,680)
Total financing costs	103,239	86,930

(17) Bonds Payable

On September 24, 2015, the ACP issued bonds to partially finance the construction of a new bridge on the Atlantic side of the Canal, with trading date October 1, 2015.

	Interest Rate%	Maturity Date	2019	2018
Bond 2035	4.95	Jul-29-35	450,000	450,000
Less: discount and issuing costs			8,513	9,078
Plus: accrued interest payable			3,712	3,712
Total			445,199	444,634

These bonds were issued under rule 144 A of Regulation S of the U.S. Securities and Exchange Commission, with a fixed annual rate of 4.95%, payable in four semi-annual installment payments to principal of B/.112,500, from January 29, 2034, and maturing on July 29, 2035. The effective interest rate is 5.17%.

As part of the obligations of the issuance, the ACP presents audited financial statements for each fiscal year and unaudited financial statements at the end of the first, second, and third quarter of each fiscal year.

(18) Other Financial Liabilities

Other financial liabilities are detailed as follows:

	2019	2018
Financial instruments designated as hedging instruments carried at fair value:		
Interest rate swaps	103,603	59,884
	103,603	59,884

In order to transfer the variability risk of the future cash flows related to the volatility of the interest rate paid in the borrowing associated to the Canal Expansion Program, the ACP subscribed an interest rate swap contract which pays at a fixed rate and receives at a floating rate.

(19) Trade and Other Payables

Trade and other payables are as follows:

	2019	2018
Panamanian Treasury	44,370	42,786
Suppliers and others	122,117	177,080
	166,487	219,866

The balances payable to the Panamanian Treasury correspond to the fees per net ton pending for payment.

The Organic Law establishes that the ACP shall annually pay the Panamanian Treasury a fee per net ton, or its equivalent, collected from vessels paying tolls for use of the Canal. This fee shall be set by the ACP. At September 30, 2019, the total of such fees paid amounted to B/.532,583 (2018: B/.501,548).

(20) Provision for Marine Accident Claims

The provision for marine accident claims represents the estimated value of filed or anticipated claims for accidents in Canal waters for which the ACP expects to be liable.

Changes in the provision for marine accident claims are detailed, as follows:

	2019	2018
Balance at beginning of the year	20,402	14,045
Provision for the year	508	10,240
Payments made	(7,028)	(3,883)
Balance at the end of the year	13,882	20,402

The increase in the provision is included as an expense of the current period under Provision for marine accidents.

(21) Other Liabilities

Other liabilities are detailed as follows:

	2019	2018
Inventories – in transit	5,419	8,219
Miscellaneous claims	8,666	4,800
Advance payment from Ministerio de Obras Públicas (MOP)	33,663	30,297
Large Screen Cinema Corp	7,128	0
Others	4,047	3,894
	58,923	47,210

During 2017, the ACP subscribed an agreement with the MOP for the transfer of particular buildings and other facilities used in the operation of the Canal, totally depreciated, which are required for the construction of the fourth bridge over the Panama Canal. In exchange, the MOP promised to pay the ACP B/.33,663. As soon as the ACP transfers the control of the facilities to the MOP, these facilities will be derecognized of the property, plant and equipment account and the corresponding profit will be recognized in the results of the year. According to the agreement, the ACP will maintain control and ownership of the land on which these facilities are built, which will be transferred to the MOP.

(21) Other Liabilities, continued

In June 2015, under contract No. CCO-15-001, the company Large Screen Cinema Corp. obtained the concession for the design, construction, operation and maintenance of a large-format cinema on an adjacent area of the Miraflores Visitor Center, for a period of 10 years, renewable for another period of 10 years at ACP´s option. According to the contract, once the construction phase was completed, the concessionaire transferred to the ACP the building as well as additional assets free of liens and charge. The transferred assets were recognized as Investment Property for an amount of B/.7,705 and a deferred liability was recognized, which will be amortized in a straight line during the term of the contract (10 years) to the Other Income account. As of September 30, 2019, the amortized amount of the liability (deferred income) is for B/.577, resulting in a balance of B/.7,128.

(22) Labor, Materials and Other Capitalized Costs

The investments program have been executed partially or totally with ACP own resources and equipment. The operating costs that are apply to the investment program are capitalized. Detail of the operating expenses and capitalized costs are as follows:

	2019		
	Total expenses	Capitalized costs	Net operating expenses
Salaries and wages	635,504	19,357	616,147
Employee benefits	79,723	459	79,264
Materials and supplies	69,022	5,117	63,905
Fuel	76,513	3,556	72,957
Depreciation	210,874	1,899	208,975
	1,071,636	30,388	1,041,248

	2018		
	Total expenses	Capitalized costs	Net operating expenses
Salaries and wages	618,077	25,105	592,972
Employee benefits	78,545	773	77,772
Materials and supplies	73,626	5,228	68,398
Fuel	73,624	2,818	70,806
Depreciation	210,714	1,765	208,949
	1,054,586	35,689	1,018,897

(23) Other Miscellaneous Revenues

Other miscellaneous revenues are detailed as follows:

	2019	2018
Ticket office	12,481	9,884
Government of Panama:		
Agreement Bayano - Mi ambiente	2,151	1,273
Agreement Rio Indio - Mi ambiente	5,083	4,244
Leasing to Government Ministries, Police, VUMPA, among others	3,269	5,501
Other revenues:		
Panamá International Terminal, S.A	3,207	2,928
Sales of excess properties	1,831	1,852
Telecommunications	4,296	4,185
Others	6,549	6,406
Total of other miscellaneous revenues	38,867	36,273

(24) Income Taxes

The ACP is not subject to income taxes, as stated in Article 43 of the Organic Law, which exempts it from the payment of all national or municipal taxes, except for the employer's contribution of social security, educational insurance, workmen's compensation, fees for public services, and the fee per net ton.

(25) Employee Benefits

The constructive and formal liability of the employee benefit programs was as follows:

	2019	2018
Benefit for employment retirement	381,266	331,591

In July 2012, the ACP established the Voluntary Retirement Incentive program (VRI) at the required retirement age for permanent employees and managers of the ACP. Before the establishment of the VRI, there was another program named the Labor Retirement Benefit (LRB) which continues to be active. The employee shall select between one program and the other, but in no case will be able to choose both. These programs were established for an indefinite period of time and could be suspended or modified by the Board of Directors. The LRB remains an option because it is included as such in collective bargaining agreement of the ACP, however, the probability that the employees choose the LRB is very low since the benefits provided by VRI are higher.

(25) Employee Benefits, continued

The requirements and criteria under the LRB are: 1) it applies to permanent employees in positions of trust and those permanent employees covered by collective bargaining agreement from the moment in which they complies with the required retirement age, according to the standards of the Caja de Seguro Social (regular and early retirement). Temporary employees, officials or permanent employees covered canal pilots' collective agreements are not eligible, 2) eligible employees must retire from the ACP within the period of time between the age of early retirement (55 years old for women and 60 years old for men), and 60 days after the regular retirement age (57 years old for women and 62 years for men), and 3) file "Termination of Employment Relationship Form" at least 30 calendar days before retirement, but not beyond the date you meet the regular retirement age.

The requirements and criteria under the VRI are: 1) the employee receives the benefit of VRI only if complies with 10 years of service and retires at the required age (early or regular) as may be he or she established by the Caja del Seguro Social, 2) be not less than 10 years working in the Canal; 3) the employee accepts the VRI offer, 4) the employee terminates work no later than 60 calendar days after completing the required age, 5) files the termination of employment form through voluntary resignation, and 6) the employee has no investigation initiated against him for the alleged commission of serious offenses against the ACP regulations that could result in his dismissal; and 7) have a maximum of two years of labor discontinuity so that if a license or several licenses are accepted or approved and separated from the ACP for more than two years to hold public or private positions, they will lose their eligibility to receive the VRI.

The ACP contracted independent actuarial services in order to estimate the present value of the total cash flow expected to be paid by the ACP in the event that the plan is maintained through the years and to determine the accrued liability at September 30, 2019. This estimate was made using the projected unit credit method and actuarial assumptions were considered, such as: statistics for age average of personnel, frequency of dismissals, retirements, early retirements, mortality, salary increase and plan acceptance rates, among other related factors which allow to reliably estimate, in accordance with IFRS, the present value of the liability for both retirement plans.

During the actuarial study, the fair value of the liability was calculated as required by the IFRS at different interest rates and at different case scenarios which included historical data provided by the ACP to the independent actuary at September 30, 2019 using a discount rate equal to the yield curve for corporate bonds with investment grade issued by companies in the United States of America (AAA, AA, A).

Expenses related to the employee benefits plan are recorded in the bonus account for voluntary separation, mutual agreement or voluntary retirement, within the personal services category.

(25) Employee Benefits, continued

The components recognized in the statement of financial position, the income statement and statement of comprehensive income, for both retirement plans, are detailed as follows:

	Statement of Financial Position	Income Statement			Statement of Comprehensive Income	Statement of Financial Position
	October 1, 2018	Benefit costs	Net interest	Benefits paid	Actuarial adjustments	September 30, 2019
Fair value of the benefits	331,591	27,050	8,442	31,572	45,755	381,266

The principal actuarial assumptions used are shown below:

	Age	2019 %	2018 %
Discount rate		2.9	4.1
Salary increase		3.75	3.75
Mortality			
Female	57 years	2.8	2.8
Male	62 years	5.9	5.9
Disability			
Female	57 years	1.2	1.2
Male	62 years	1.9	1.9

Following are the projected disbursements of voluntary retirement benefits expected in future years in case the plans are maintained:

	2019
Maturity of the obligation:	
From 0 to 1 year	33,777
From 1 to 5 years	148,739
From 5 to 10 years	202,671
From 10 to 25 years	357,442
Beyond 25 years	83,284

At September 30, 2019, the average duration of the obligation for the defined benefit plans for voluntary retirement of employees (VRI/LRB) is approximately 7.72 years (2018: 7.78 years) at a discount rate of 2.9% (2018: 4.1%).

(25) Employee Benefits, continued

A quantitative sensitivity analysis for significant assumptions as of September 30, 2019 is as follows:

Assumption	Discount rate Increase 25 bps	Discount rate Decrease 25 bps	Increase of salary of 25 bps	Decrease of salary of 25 bps
Sensitivity level				
Impact on defined benefit obligation	(B/.7,588)	B/.8,095	B/.7,702	(B/.7,478)

Reiumbursement right to ACP

The ACP contracted a reimbursement policy, in accordance with IAS 19, to cover the defined benefit plans for voluntary retirement of employees. The policy ensures the ACP reimbursement of all payments made by the ACP in respect of defined benefit plans for voluntary retirement of employees during the term of the plan as long as the ACP makes annual installments to the insurance company as a guarantee deposit equal to the probable amount that the ACP would pay during the year for the retirement benefit plans. In addition, the reimbursement policy provides protection in each year of its term against the risk that the ACP suffers any financially incapacitating event to meet payment of obligations to its employees, for any reason, including illiquidity, if occurred during the term of the policy, as long as the ACP is current in the payments of the premium and the defined benefit plans for voluntary retirement are in effect. The policy does not cover the risk of default of the ACP that could arise from internal fraud, catastrophic physical risks, nuclear war, terrorism, and epidemics, which has been estimated at 3.3% of the total insured amount.

Changes in the reimbursement right to ACP during fiscal year 2019 are detailed as follows:

	Statement of Financial Position	Income Statement			Statement of Comprehensive Income	Statement of Financial Position
	October 1, 2018	Reimbursement right cost of the year	Net interest	Reimbursements during the year	Actuarial adjustments	September 30, 2019
Reimbursement right to ACP	320,649	24,353	8,163	28,726	44,245	368,684

At September 30, 2019, the ACP paid the insurer B/.29,970 (2018: B/.27,350) in premiums of the reimbursement policy.

(26) Risk Management

The ACP maintains a conservative and prudent financial policy oriented to preserve its capital and generate optimal performance with low risk levels, performing various risk management activities throughout the year, including analysis, evaluation and risk mitigation. This allows management to plan and make decisions that enhance the economic contribution and operational excellence, improving the chances of achieving the strategic goals.

(26) Risk Management, continued

The ACP's capital structure consists of net debt (borrowings and bonds as detailed in notes 16 and 17), compensated by cash and bank deposit balances, other financial assets (See note 9) and equity of the enterprise (consisting of contributed capital, reserves, other equity accounts, and unappropriated retained earnings, as disclosed in notes 12, 13, 14 and 15, respectively).

Historically, the ACP has operated with its own resources due to the high cash levels generated by its operations, enabling it to afford its costs of operation, investment, functioning, maintenance and modernization. On December 2008 it subscribed a common term financing agreement with five development agencies, which committed to grant financings totaling B/.2,300,000 in order to partially finance the Canal Expansion Program. More recently, in September 2015, it issued bonds on the international market totaling B/.450,000 in order to partially finance the building of the bridge on the Atlantic side of the Canal. (See notes 16 and 17).

Categories of financial instruments

	2019	2018
Financial assets		
Cash and cash equivalents (note 11)	57,832	60,339
Advances and other receivables to contractor, net (note 5)	0	840,111
Trade and other receivables (note 6)	41,363	54,227
Operations with settlement in progress	2,603	0
Other financial assets (note 9)	4,314,392	3,295,450
	4,416,190	4,250,127
Financial liabilities		
Financial instruments designated as hedging instruments (note 18)	103,603	59,884
Trade and other payables (note 19)	166,487	219,866
Borrowings (note 16)	2,215,530	2,331,520
Bonds payable (note 17)	445,199	444,634
	2,930,819	3,055,904

Accounting classification and fair values

The following table shows the book value and the fair value of financial assets and liabilities, including their fair value hierarchy levels.

(26) Risk Management, continued

	Book value				
September 30, 2019	**Fair value – hedging instruments**	**FVOCI – Debt securities**	**Financial assets at amortized cost**	**Financial liabilities**	**Total**
Financial assets measured at fair value					
Other financial assets:					
Corporate debt securities	0	2,770,136	0	0	2,770,136
Instruments designated in cash flow hedging relationship:					
Call option - Diesel	1,020	0	0	0	1,020
	1,020	2,770,136	0	0	2,771,156
Financial assets not measured at fair value					
Other financial assets:					
Time deposits, more than 90 days	0	0	1,515,512	0	1,515,512
Accrued interest receivable	0	0	27,724	0	27,724
	0	0	1,543,236	0	1,543,236
Trade and other receivables	0	0	41,363	0	41,363
Operations with settlement in progress	0	0	2,603	0	2,603
Cash and cash equivalents	0	0	57,832	0	57,832
	0	0	1,645,034	0	1,645,034
Financial liabilities measured at fair value:					
Other financial liabilities:					
Instruments designated in cash flow hedging relationship:					
Interest rate swaps	103,603	0	0	0	103,603
	103,603	0	0	0	103,603
Financial liabilities not measured at fair value:					
Bonds payable	0	0	0	445,199	445,199
Borrowings	0	0	0	2,215,530	2,215,530
Trade and other payables	0	0	0	166,487	166,487
	0	0	0	2,827,216	2,827,216

(26) Risk Management, continued

September 30, 2018	Book value: Fair value – hedging instruments	Available for sale	Held to maturity	Borrowings and receivables	Financial liabilities	Total
Financial assets measured at fair value						
Other financial assets:						
Corporate debt securities	0	2,042,558	0		0	2,042,558
Instruments designated in cash flow hedging relationship:						
Interest rate swaps	4,124	0	0	0	0	4,124
Diesel swap contracts	2,078	0	0	0	0	2,078
	6,202	2,042,558	0	0	0	2,048,760
Financial assets not measured at fair value						
Other financial assets:						
Time deposits, more than 90 days	0	0	1,230,000	0	0	1,230,000
Accrued interest receivable	0	0	16,690	0	0	16,690
	0	0	1,246,690	0	0	1,246,690
Advances and other receivables to contractors	0	0	0	840,111	0	840,111
Trade and other receivables	0	0	0	54,227	0	54,227
Cash and cash equivalents	0	0	60,339	0	0	60,339
	0	0	1,307,029	894,338	0	2,201,367
Financial liabilities measured at fair value:						
Other financial liabilities:						
Hedging instruments – interest rate swaps	59,884	0	0	0	0	59,884
	59,884	0	0	0	0	59,884
Financial liabilities not measured at fair value:						
Bonds payable	0	0	0	0	444,634	444,634
Borrowings	0	0	0	0	2,331,520	2,331,520
Trade and other payables	0	0	0	0	219,866	219,866
	0	0	0	0	2,996,020	2,996,020

September 30, 2019	Fair value: Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Other financial assets:				
Corporate debt securities	1,987,948	782,188	0	2,770,136
Instruments designated in cash flow hedging relationship:				
Call option - Diesel	0	1,020	0	1,020
	1,987,948	783,208	0	2,771,156
Financial assets not measured at fair value				
Other financial assets:				
Time deposits, more than 90 days	0	1,543,236	0	1,543,236
Trade and other receivables	0	0	41,363	41,363
Operations with settlement in progress	0	0	2,603	2,603
Cash and cash equivalents	0	0	57,832	57,832
	0	1,543,236	101,798	1,645,034
Financial liabilities measured at fair value:				
Other financial liabilities:				
Instruments designated in cash flow hedging relationship:				
Interest rate swaps	0	103,603	0	103,603
	0	103,603	0	103,603
Financial liabilities not measured at fair value:				
Bonds payable	0	0	518,841	518,841
Borrowings	0	0	2,224,602	2,224,602
Trade and other payables	0	0	166,487	166,487
	0	0	2,909,930	2,909,930

(26) Risk Management, continued

September 30, 2018	Fair value Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Other financial assets:				
Corporate debt securities	1,577,164	465,394	0	2,042,558
Instruments designated in cash flow hedging relationship:				
Interest rate swaps	0	4,124	0	4,124
Diesel swap conttract	0	2,078	0	2,078
	1,577,164	471,596	0	2,048,760
Financial assets not measured at fair value				
Other financial assets:				
Time deposits, more than 90 days	0	1,246,690	0	1,246,690
Advances and other receivables to contractor	0	0	831,869	831,869
Trade and other receivables	0	0	54,227	54,227
Cash and cash equivalents	0	0	60,339	60,339
	0	1,246,690	946,435	2,193,125
Financial liabilities measured at fair value:				
Other financial liabilities:				
Hedging instruments – interest rate swap contracts	0	59,884	0	59,884
	0	59,884	0	59,884
Financial liabilities not measured at fair value:				
Bonds payable	0	0	467,114	467,114
Borrowings	0	0	2,355,208	2,355,208
Trade and other payables	0	0	219,866	219,866
	0	0	3,042,188	3,042,188

This table presents the fair value of each type of financial assets and liabilities in order to compare the information with their corresponding book values. In addition, it reconciles assets and liabilities with the different financial instrument categories as defined by the IAS 39 – Financial Instruments: Recognition and Measurement, before October 1, 2018, and with the different financial instrument categories as defined by the IFRS 9- Financial Instruments after on October 1, 2018.

The ACP does not present fair value for financial instruments such as short-term accounts receivables/payables because their book value reasonably approximates their fair value.

Hedging instruments such as interest rate swaps are registered at their clean price, and the interest are recognized as interest payable.

(26) Risk Management, continued
Fair value measurement

i. Valuation techniques and unobservable significant inputs

The following table shows the valuation techniques used to measure the Level 2 and Level 3 fair value for financials instruments recognized at fair value on the statement of financial position, as well as unobservable significant inputs. The valuation process is described on Note 3.

Type	Valuation technique	Unobservable significant inputs	Interrelation between unobservable significant inputs and fair value measurement
Interest rate swap contracts	*Swap model:* fair value is calculated as the present value of the estimated cash flow. The future cash flow estimates of variable rate curves based on quoted swap rates, future prices and interbank rates. Future cash flows are discounted using a yield curve constructed of similar sources that reflect the interbank rates used by market participants for this purpose when valuing interest rate swap contracts. The fair value is subject to an adjustment due to the credit risk of both the ACP and the counterparty, calculated using credit margins derived from credit default swaps or bond prices.	None	None

(26) Risk Management, continued

Type	Valuation technique	Unobservable significant inputs	Interrelation between unobservable significant inputs and fair value measurement
Diesel Price swaps	*Swap model:* fair value is calculated as the present value of the estimated cash flow. The future cash flow estimates of variable diesel prices are based on swap rates, future prices and interbank rates. Future cash flow are discounted with a yield curve constructed of similar sources that reflect the relevant interbank rates used by market participants for this purpose when valuing diesel swap contracts. The fair value is subject to an adjustment due to the credit risk of both the ACP and the counterparty, calculated using credit margins derived from credit default swaps or bond prices.	None	None
Diesel purchase option contract	*Option Model:* the fair value is calculated using the Black Scholes Model, which determines the reasonable price or theoretical price of an option based on six variables: volatility, type of option, underlying price, time, strike price and risk free rate.	None	None
Corporate debt securities	*Market comparison*. Fair value is estimated considering recent or current quotes prices for identical instruments on an inactive market.	None	None

As of September 30, 2019, debt instruments classified at fair value with changes in other comprehensive income (previously classified as available for sale) were transferred from Level 1 to Level 2 due to the observable reference prices in an active market, where the entry data is directly or indirectly observable.

(26) Risk Management, continued

Financial risk management objectives

ACP's main financial liability consists of borrowings, bonds payable and trade accounts payable. The main purpose of these financial liabilities was to finance the Canal Expansion Program and the new bridge at the Atlantic side of the Canal. The ACP also has cash, bank deposits, operations with settlement in progress, trade and other receivables, and funds invested in short term debt instruments held until maturity. The ACP also contracts hedging instruments.

The ACP is exposed to credit, market and liquidity risks.

ACP's administration monitors and manages these risks. ACP's Treasury coordinates the access to international financial markets, monitors and manages the financial risks related to ACP's operations through internal risk reports, which analyze the exposures depending on their degree and magnitude. These risks include market risk (exchange risk and price risk), credit risk, liquidity risk, and interest rate risk. Teams of specialists with the appropriate knowledge, experience and supervision perform all the activities related to risk hedging.

The ACP maintains policies that provide written principles about foreign exchange risk management, interest rate risk, credit risk, and the use of hedge financial instruments and liquidity investment. The Office of the Inspector General periodically monitors the compliance with the policies and exposure limits. The ACP does not subscribe or negotiate financial instruments for speculative purposes.

The ACP's treasury quarterly updates the Board of Directors Finance Committee and follows up the risks and the implemented policies to mitigate risk exposure. The Office of the Inspector General periodically audits treasury operations, and reports to the Board of Directors.

The Board of Directors revises and approves the policies for managing each of the following risks:

Market risk

ACP's activities are exposed primarily to financial risks due to variations of currency exchange, interest rates, and commodity prices out of its control. All ACP´s financial instruments are at fixed rate, with the exception of B/. 2,200,000 in borrowings which are at variable rate (see note 16). With the purpose of managing these risks exposures, the ACP subscribes a variety of hedge financial instruments approved by its Board of Directors based on the recommendations of the Liquidity and Hedging Committee, including:

- Interest rate swaps to mitigate the risk of increases in interest rates.

- Diesel price options/swaps to mitigate the risk of fluctuations in the price of this commodity, which is required for the Canal's regular operations.

Exchange rate risk management

The ACP has established a policy to manage foreign currency risk related to its functional currency. The ACP only accepts payments in dollars of the United States of America and the investment criteria and applicable guidelines require that all deposits and investments in banks shall be in the dollars of the United States of America, or in other currencies authorized by the Board of Directors.

(26) Risk Management, continued

As of September 30, 2019 and September 30, 2018, the ACP does not maintain commitments in other currencies. It only maintains deposits in the currency of the United States of America.

Cash flow and fair value interest rate risk

The interest rate risk of the cash flow and the interest rate risk of fair value consist in the fact that future cash flows and the value of a financial instrument fluctuate due to changes in market rates.

ACP's net financial cost can fluctuate as a result to unanticipated movements on interest rates.

The following table resumes ACP's exposure based on the interest repricing gaps on its financial assets and liabilities:

2019	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Assets						
Bank savings and term deposits	0	30,000	1,500,001	43,744	0	1,573,745
Debt instruments -FVOCI	245,108	637,792	1,887,235	0	0	2,770,136
	245,108	667,792	3,387,236	43,744	0	4,343,881
Liabilities						
Borrowings	2,090,000	0	0	0	95,000	2,185,000
Bonds payable	0	0	0	0	450,000	450,000
	2,090,000	0	0	0	545,000	2,635,000
Interest rate swap hedges	(720,000)	0	40,000	320,000	360,000	0
Total interest rate sensitivities	(1,124,892)	667,792	3,347,236	(276,256)	(905,000)	1,708,881

2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
Assets						
Bank savings and time deposits	90,000	10,000	1,190,237	0	0	1,290,237
Debt instruments - FVOCI	144,563	817,922	1,080,073	0	0	2,042,558
	234,563	827,922	2,270,310	0	0	3,332,795
Liabilities						
Borrowings	2,200,000	0	0	0	100,000	2,300,000
Bonds payable	0	0	0	0	450,000	450,000
	2,200,000	0	0	0	550,000	2,750,000
Interest rate swap hedges	(2,200,000)	0	110,000	1,650,000	440,000	0
Total interest rate sensitivities	234,563	827,922	2,160,310	(1,650,000)	(990,000)	582,795

(26) Risk Management, continued

The ACP manages its interest rate risk exposure partially by contracting fixed rate instruments and variable rate financing, and uses interest rate swaps contracts to hedge cash flow variability attributable to interest rate risk.

The ACP does not account for any of its financial instruments, whether assets or liabilities, at fair value through profit or loss. Nor does it designate derivative instruments as fair value hedges. Therefore, a change in interest rate on the reporting date would not affect net income.

The ACP administration performs simulations on its financial assets and liabilities in order to evaluate interest rate risk and its impact in the fair value of financial instruments. To manage interest rate risk, the ACP has defined an interval on the limits to monitor the sensitivity on its financial assets and liabilities. The interest rate impact estimation by category assumes a 100 basic points (bp) increase or reduction on the financial assets and liabilities. The following table reflects the impact of applying those interest rate variations:

	Net interest income sensitivity			
	100bp increment		100bp reduction	
	2019	2018	2019	2018
At the end of the year	17,647	20,554	(17,647)	(20,554)

	Other comprehensive income sensitivity			
	100bp increment		100bp reduction	
	2019	2018	2019	2018
At the end of the year	27,977	60,953	(27,981)	(60,965)

Interest rate risk management

The ACP is exposed to interest rate risk because it borrowed funds at fixed and variable rate and issued bonds at fixed rates. This risk is managed with the use of interest rate swap contracts. Given market conditions, hedging activities are evaluated regularly in order to consider interest rate volatility and risk tolerance, ensuring that the most conservative hedging strategies are applied.

Interest rate swap contracts

Starting on March 2010 the ACP established interest rate swap contracts without collateral to fix the interest rate on B/.800,000 variable rate loans. The notional amount and principal amortizations on the swap instruments coincide with the dates, disbursements and amortizations of the underlying loans: B/.200,000 were disbursed on March 1, 2010, B/.300,000 on October 29, 2010, and B/.300,000 on April 13, 2011. Semi-annual amortizations for B/.40,000 are programmed to begin on May 15, 2019 until their maturity on November 15, 2028.

In March 2018 the ACP contracted interest rate swap contracts without collateral, to protect the fiscal year 2019 budget in two B/.700,000 tranches, a total of B/.1,400,000, effective as of November 15, 2018 up to November 15, 2019.

(26) Risk Management, continued

These interest rate swap contracts totaling B/.1,400,000 consider the B/.70,000 semi-annual principal amortizations starting on May 15, 2019 up to the swap maturity on November 15, 2019.

According to interest rate swap contracts, the ACP agreed to swap the difference between the fixed and floating interest rate amounts calculated on the agreed notional principal amounts. Such contracts allow the ACP to mitigate the risk of interest rate changes in the cash flow of part of the hedged floating rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting future cash flows using the yield curves at the end of the period in question and the inherent credit risk in the contract, as it is explained further below.

The following table details the notional principal amounts and the remaining terms of the outstanding interest rate swap contracts at the end of the reporting period:

Notional	Effective date	Maturity date
760,000	May-17-2010	Nov-15-2028
665,000	Nov-15-2018	Nov-15-2019
665,000	Nov-15-2018	Nov-15-2019

Interest rate swap, variable receipts and fixed payment	Average contracted fixed interest rate		Notional principal value		Fair value	
	2019	2018	2019	2018	2019	2018
Less than 1 year	2.71%	2.71%	665,000	700,000	(102)	1,415
Less than 1 year	2.75%	2.75%	665,000	700,000	(139)	1,125
5 years or more	4.67%	4.67%	760,000	800,000	(103,362)	(59,884)

Interest rate swaps are liquidated semi-annually. The floating rate on the interest rate swaps is the 6-month LIBOR rate. The ACP will pay or receive the difference between the floating and the fixed interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the ACP's cash flow exposure resulting from floating interest rates on borrowings.

The interest rate swap contracts subscribed with ACP's counterparties stipulate that ACP would not cover with collateral guarantees any unrealized loss generated by the periodic valuations of these financial instruments.

(26) Risk Management, continued

Asset and liability derivative instruments designated as cash flow hedges
The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur, as well as the book value of the hedge instruments:

	2019					2018				
		Expected cash flow					Expected cash flow			
(In thousands of B/.)	Book value	Total	1-6 months	6-12 months	More than 1 year	Book value	Total	1-6 months	6-12 months	More than 1 year
Interest rate swaps										
Assets	0	0	0	0	0	4,124	9,034	6,415	166	2,454
Liabilities	(103,603)	(115,949)	(9,054)	(9,783)	(97,112)	(59,884)	(73,115)	(8,802)	(7,695)	(56,618)
Call option – Diesel										
Assets	1,020	0	0	0	0	2,078	2,315	1,027	1,288	0
	(102,583)	(115,949)	(9,054)	(9,783)	(97,112)	(53,682)	(61,767)	(1,360)	(6,242)	(54,165)

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to impact profit or loss, as well as the book value of hedge instruments:

	2019					2018				
		Expected cash flow					Expected cash flow			
(In thousands of B/.)	Book value	Total	1-6 Months	6-12 months	More than 1 year	Book value	Total	1-6 months	6-12 months	More than 1 year
Interest rate swaps										
Assets	0	0	0	0	0	4,124	9,034	6,415	166	2,454
Liabilities	(103,603)	(115,949)	(9,054)	(9,783	(97,112)	(59,884)	(73,115)	(8,802)	(7,695)	(56,618)
Call option - Diesel										
Assets	1,020	0	0	0	0	2,078	2,315	1,027	1,288	0
	(102,583)	(115,949)	(9,054)	(9,783)	(97,112)	(53,682)	(61,767)	(1,360)	(6,242)	(54,165)

Liquidity risk management
The ACP manages the liquidity risk through continuous by monitoring its forecasted and actual cash flows, reconciling the financial asset and liability maturity profiles.

Historically, the cash generated by the ACP's operations has been enough to cover its operations and its investment program's requirements, while generating adequate returns. In December 2008, the ACP obtained financing in order to complement the needs of the Canal Expansion Program. Subsequently, in September 2015 the ACP issued bonds in the capital markets to partially finance the new bridge across the Canal on the Atlantic Side. The credit facilities used to supply the adequate liquidity are detailed further below.

(26) Risk Management, continued

Liquidity risk tables

The following table details ACP's financial assets and liabilities grouped by their remaining maturities with respect to their contractual maturity dates:

	September 30, 2019						
	Book value	Total gross nominal amount inputs/(outputs)	Up to 3 months	3 - 6 months	6 months - 1 year	1 – 5 years	More than 5 years
Assets:							
Cash and cash equivalents	57,832	57,832	57,832	0	0	0	0
Time deposits, more than 90 days	1,543,236	1,555,307	895,832	628,602	30,883	0	0
Debt instruments - FVOCI	2,770,136	2,823,797	725,749	1,084,000	1,014,049	0	0
Trade and other receivables	41,360	41,360	41,360	0	0	0	0
	4,412,564	4,478,296	1,720,762	1,712,602	1,044,932	0	0
Liabilities:							
Borrowings	2,215,530	2,461,281	125,122	0	146,857	1,082,802	1,106,500
Bonds payable	445,199	778,656	0	11,138	11,138	78,063	678,319
Trade and other payables	166,487	166,606	166,606	0	0	0	0
	2,827,216	3,406,543	291,727	11,138	157,995	1,160,865	1,784,819
Hedging instruments:							
Diesel call option, fixed payment and variable receipt, net	1,020	0	0	0	0	0	0
Interest rate swap, fixed payment and variable receipt, net	(103,603)	(115,949)	(9,054)	0	(9,783)	(69,468)	(27,644)
Total – hedge instruments	(102,583)	(115,949)	(9,054)	0	(9,783)	(69,468)	(27,644)

(26) Risk Management, continued

	September 30, 2018						
	Book value	Total gross nominal amount inputs/(outputs)	Up to 3 months	3 - 6 months	6 months - 1 year	1 – 5 years	More than 5 years
Assets							
Cash and cash equivalents	60,339	61,656	61,656	0	0	0	0
Time deposits	1,246,690	1,246,693	1,029,601	116,758	100,334	0	0
Securities available for sale	2,042,558	2,094,170	247,324	782,487	1,064,359	0	0
Trade and other receivables	54,227	54,227	54,227	0	0	0	0
Advances and other receivables to contractors	840,111	840,111	547,959	0	0	292,152	0
	4,243,925	4,296,857	1,940,767	899,245	1,164,693	292,152	0
Liabilities							
Borrowings	2,331,520	(2,821,312)	(10,450)	0	(158,768)	(1,223,819)	(1,428,275)
Bonds payable	444,634	(811,969)	0	(11,138)	(11,138)	(89,100)	(700,594)
Trade and other payables	219,866	(219,866)	(219,866)	0	0	0	0
	2,996,020	(3,853,147)	(230,316)	(11,138)	(169,905)	(1,312,919)	(2,128,869)
Diesel Price swap, fixed payment and variable receipt, net	2,078	2,315	409	618	1,288	0	0
Interest rate swap, fixed payment and variable receipt, net	(55,760)	(64,082)	(2,387)	0	(7,530)	(34,831)	(19,334)
Total	(53,682)	(61,767)	(1,978)	618	(6,242)	(34,831)	(19,334)

In order to finance the Canal Expansion Program for a total of B/.2,300,000, the ACP entered a Common Terms Agreement with five multilaterals credit agencies. Currently 4.3% of the debt (B/.95,000) has a fixed effective rate of 5.31%, while the remaining 95.7% (B/.2,090,000) has a variable average effective rate of 2.44%. The effective rate for the financing, calculated as a weighted average of both, its fixed and variable portions, is 2.56%.

For the financing of the new bridge across the Atlantic Side of the Canal, bonds totaling B/.450,000 were issued at a fixed rate of 4.95% (effective rate of 5.14%) payable semi-annually in January and July of each year. The interest rate swap contracts subscribed with ACP's counterparties stipulate that the ACP will not cover with collateral guarantees any unrealized loss generated by the periodic valuations of these financial instruments.

The following table groups the financing sources according to their respective terms:

	Weighted average effective interest rate (%)	1 month or less	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
September 30, 2019							
Variable interest rate loans	2.44%	0	110,000	110,000	880,000	990,000	2,090,000
Fixed interest rate loans	5.31%	0	5,000	5,000	40,000	45,000	95,000
Fixed interest rate bonds	5.14%	0	0	0	0	450,000	450,000
		0	115,000	115,000	920,000	1,485,000	2,635,000

(26) Risk Management, continued

Fuel price risk
The ACP is exposed to commodity price fluctuation risk on the fuel used in its transit and dredging operations, as well as in its power generation activities and the sale of surplus energy to Panama's National Grid ("Sistema Integrado Nacional"), to the extent that such variations cannot be transferred to ACP's customers.

Maritime operations
The ACP uses approximately between 10 and 14 million gallons of light diesel on its vessel transit and dredging operations. Since October 20, 2009, risk management for diesel price fluctuations is performed mainly within the fiscal year, period that is considered representative for the implementation of appropriate commercial policies. In order to manage the risk, the ACP performs specific hedging transactions covering approximately 80% of the expected volume.

In august 2018, the ACP purchased a diesel swap contract to protect its fiscal year 2019 operational diesel budget for 11.1 million gallons with a monthly notional of 922,100 gallons, paying a light diesel price of B/.2.0885 per gallon and receiving the monthly average variable price, in order to hedge its operational diesel price fluctuation risk. At the end of fiscal year 2019 the registered accumulated annual fuel consumption totaled 13.6 million gallons.

Energy generation
The ACP generates power for the consumption of the Canal's operations, while excess capacity is sold in the domestic electricity market. Until September 2019, the ACP consumed 24% of the power generated, while the remaining 76% was sold to the electric market. Power generated by hydroelectric and thermal plants was 22% and 78%, respectively.

Thermal plant generation is exposed to fuel price volatility risk. However, this price is indexed to the energy sale rate. This indexing is defined in contractual clauses when the energy is sold under previously agreed contracts or in weekly statements when energy is not sold under contracts, namely, in the spot market.

Operational fuel price risk sensitivity analysis
As of September 30, 2019, the current price index for light diesel purchases made by the ACP was B/.2.08 per gallon. As of September 30, 2019 the light diesel operational expense registered a real decrease of B/.835.

Credit risk management
It refers to the risk that the borrower or issuer of a financial asset may not comply, completely and on time, with any payment to be made in accordance with the terms and conditions agreed upon when the obligation was acquired. To mitigate the credit risk, the liquidity investment policy set limits by industry and by issuer as a result of the categorization of the Risk Assessment System adopted by the ACP, which includes the following factors: short-term international credit risk rating, capital/leverage coverage, country risk, liquidity index, impairment, performance and credit risk. In the case of sovereign issuers, the country risk factor is the only one considered.

(26) Risk Management, continued

Counterparty risk refers to the risk of a counterparty defaulting in the payment of a security purchase transaction. The ACP does not have counterparty risk, as it buys all of its securities using the method of payment on delivery ("delivery versus payment") through payment systems, using a custodian account.

Credit risk refers to the risk that one of the parties does not comply with its contractual obligations, resulting in financial loss to the ACP. To address this risk, ACP's policies only allow depositing funds in banking institutions and financial instruments that have more than one short-term international investment grade rating, which cannot be inferior to A-2 by Standard & Poors, P-2 by Moody's Ratings, or F-2 by Fitch Ratings. Additionally, these policies allow for a total investment of up to seven percent of the portfolio in financial instruments that have more than one short-term international investment grade rating, which cannot be inferior to A-3 by Standard & Poors, P-3 by Moody's Bank Deposit Ratings, or F-3 by Fitch Ratings.

Credit quality analysis

The tables below show the credit quality analysis of the different type of financial assets the ACP maintains, which were classified based on their international risk rating from risk rating agencies, and the impairment reserves calculated using on their 12 month expected loss of such assets:

Advances and other receivables to contractors

The total recovery of the advances for B/. 847,630 was received from the contractor GUPCSA as a result of the arbitration awards in favor of the ACP.

The movement in the expected credit impairment loss related to the advances and other receivables to contractors is presented below:

	12 month ECL
Balance as of October 1, 2018, according to IAS 39	0
Adjustment in the application of IFRS 9	526
Balance as of October 1, 2018, according to IFRS 9	526
Net remeasurement of the loss provision	0
Financial assets derecognized	(526)
New financial assets acquired	0
Balance as of September 30, 2019	0

(26) Risk Management, continued

Trade and other receivables

As of September 30, 2019, the 12 month expected loss for the trade and other receivables totaled B/.2. This provision does not contemplate credit losses related to the Panamanian Treasury, as the ACP has the right to exercise at any moment a discount from its annual payments to the Panamanian Treasury corresponding to any defaulted balance outstanding.

	12 month ECL
Balance as of October 1, 2018, according to IAS 39	0
Adjustment in the application of IFRS 9	37
Balance as of October 1, 2018, according to IFRS 9	37
Net remeasurement of the loss provision	0
Financial assets derecognized	(37)
New financial assets acquired	2
Balance as of September 30, 2019	2

The ACP considers that its accounts receivable portfolio has a low credit risk based on the external credit ratings of its counterparties.

The evaluation of the account receivables expected credit loss utilized a similar approach to the one used on the debt instruments.

Operations with settlement in progress

As of September 30, 2019, the 12 month expected credit loss of operations with settlement in progress totaled B/.3.

The ACP considers that operations with settlement in progress have a low credit risk based on the external credit ratings of its counterparties.

The evaluation of the operations with settlement in progress expected credit loss utilized a similar approach to the one used on the debt instruments.

(26) Risk Management, continued

The movement in the expected credit impairment loss related to the operations with settlement in progress is presented below:

	12 month ECL
Balance as of October 1, 2018, according to IAS 39	0
Adjustment in the application of IFRS 9	0
Balance as of October 1, 2018, according to IFRS 9	0
Net remeasurement of the loss provision	0
Financial assets derecognized	0
New financial assets acquired	3
Balance as of September 30, 2019	3

Bank deposits

As of September 30, 2019, 100% (2018: 100%) of the demand and time bank deposits were placed with investment grade financial institutions.

	September 30, 2019			September 30, 2018
	Amortized cost			
	Cash and cash equivalents 12 month ECL	Time deposits, more than 90 days 12 month ECL	Total	Held to maturity
Aaa to Aa3	29,868	204,845	34,713	380,000
A1 to A3	26,793	550,875	577,668	705,063
Baa1	0	0	0	200,091
Baa2	1,186	788,003	789,189	5,084
Gross book value (2018: amortized cost prior to impairment	57,847	1,543,723	1,601,570	
Loss provision	(15)	(487)	(502)	
Amortized cost	57,832	1,543,236	1,601,068	
Book value	57,832	1,543,236	1,601,068	1,290,238

The "cash and cash equivalent" category includes all demand deposits accounts, savings accounts, overnight accounts, as well as those time deposits with a short term maturity, meaning less than 90 days.

The credit impairment loss provision was calculated based on the expected 12 month credit loss, considering each counterparty's default probability, the proportion of the position which would be lost if the loss materialized, and the exposed amount itself.

(26) Risk Management, continued-

The calculation of the bank deposit's additional expected credit loss provision is presented below:

	12 month ECL
Balance as of October 1, 2018, according to IAS 39	0
Adjustment in the application of IFRS 9	493
Balance as of October 1, 2018, according to IFRS 9	493
Net remeasurement of the loss provision	0
Financial assets derecognized	(493)
New financial assets acquired	502
Balance as of September 30, 2019	502

Investment securities measured at fair value with changes in other comprehensive income

The ACP's investment portfolio consists of debt instruments classified at fair value with changes in other comprehensive income, acquired with the intention to be held for a period less or equal to one year, which are susceptible to being sold in order to attend the liquidity needs or changes in interest rates, which may impact significantly the debt service. Such instruments are measured and reported at fair value, but they do not impact the income statement.

	September 30, 2019				September 30, 2018
	Fair value with changes in other comprehensive income				
	12 month ECL	Lifetime ECL - without credit impairment	Lifetime ECL - with credit impairment	Total	Securities available for sale
Aaa to Aa3	6,005	0	0	6,005	67,729
A1 to A3	391,218	0	0	391,218	398,367
Baa1	533,938	0	0	533,938	543,798
Baa2	1,249,437	0	0	1,249,437	715,859
Baa3	587,052	0	0	587,052	318,054
Gross book value (2018: amortized cost before impairment	2,767,650	0	0	2,767,650	0
Loss provision	(583)	0	0	(583)	0
Amortized cost	2,767,067	0	0	2,767,067	0
Book value	2,770,136	0	0	2,770,136	2,043,538

(26) Risk Management, continued

The expected credit loss provision for the Investment securities measured at fair value with changes in other comprehensive income is presented below:

	12 month ECL
Balance as of October 1, 2018, according to IAS 39	0
Adjustment in the application of IFRS 9	754
Balance as of October 1, 2018, according to IFRS 9	754
Net remeasurement of the loss provision	0
Financial assets derecognized	(754)
New financial assets acquired	583
Balance as of September 30, 2019	583

Measurement of the gain or impairment loss

ACP recognizes the gains or impairment losses of the financial instruments measured at fair value with changes in other comprehensive income based on the difference between the book value carried at amortized cost and the fair value of the instruments, as stated below:

	September 30, 2019		
	Fair Value	Amortized Cost	Unrealized gain or loss
Aaa to Aa3	6,017	6,005	12
A1 to A3	391,751	391,218	533
Baa1	527,112	526,603	509
Baa2	1,566,611	1,565,665	946
Baa3	278,644	278,160	484
	2,770,136	2,767,650	2,484

Credit Risk Concentration

The ACP monitors credit risk concentration by industry sector according to the “Bloomberg Industry Classification Standard”.

	2019
Basic materials	136,055
Communications	206,094
Consumer, cyclical	299,836
Consumer, non-cyclical	690,162
Energy	295,353
Financials	667,349
Industry	158,525
Technology	69,358
Services	247,403
Total	2,770,136

(26) Risk Management, continued

The ACP is not allowed to place its funds in banks or financial instruments when one of its ratings is lower than what is indicated herein, except for the Banco Nacional de Panamá. ACP's exposure and the credit ratings of its counterparties are reviewed continuously. The credit exposure is controlled by counterparty limits that are quarterly reviewed quarterly through the "Risk Assessment System for Banking Institutions and Financial Instruments".

The maximum limits for credit exposure in financial instruments by bank institution or issuer are assigned considering the assessment of the following weighted factors:

1. International credit risk rating
2. Capital/leverage coverage
3. Country risk
4. Liquidity index
5. Impairment
6. Performance
7. Credit risk

Banking institutions and issuers are classified within three categories in the ACP's risk system:

A. Up to B/.100,000
B. Up to B/.80,000
C. Up to B/.60,000

(27) Adoption of IFRS 9 Financial Instruments

The adoption of IFRS 9 requires the reclassification and remeasurement of the ACP's financial assets based on established business models, and on the characteristics of the contractual cash flow of the financial asset.

The main objective of the ACP's business model for investment securities is to receive contractual capital and interest flows and be able to sell at any time due to liquidity needs or due to interest rate changes.

As of October 1, 2018, the classification and measurement of financial instruments held as of September 30, 2018, are as follows:

- Trade and other receivables measured at amortized cost under IAS 39, maintain this measurement under IFRS 9.
- Advances and other receivable to contractor measured at amortized cost under IAS 39, maintain this measurement under IFRS 9.
- Cash and cash equivalents and time deposits over 90 days that are classified as financial instruments held to maturity and measured at amortized cost under IAS 39, maintain this measurement under IFRS 9.
- Debt instruments classified as available for sale under IAS 39 were classified as FVOCI under IFRS 9, unless their contractual flows are not only principal and interest payments in which case they are classified as FVTPL.
- Derivatives held to manage risks that are measured at fair value under IAS 39, maintain this measurement under IFRS 9.

(27) Adoption of IFRS 9 Financial Instruments, continued

The following table shows the original measurement categories under IAS 39 for the ACP's financial assets and liabilities as of September 30, 2018 and its new classification and value under IFRS 9 as of October 1, 2018:

	Original classification IAS 39	New classification IFRS 9	Original carrying amount IAS 39	New carrying amount IFRS 9
Financial assets:				
Cash and cash equivalents	Held to maturity	Amortized cost	60,283	60,281
Advances and other receivable to contractor	Loans and receivable	Amortized cost	840,111	839,585
Trade and other receivables	Loans and receivable	Amortized cost	54,227	54,190
Time deposits over 90 days	Held to maturity	Amortized cost	1,230,000	1,229,509
Corporate debt securities	Available-for-sale	FVOCI	2,042,558	2,042,558
Interest rate swaps	Fair value	FVOCI	4,124	4,124
Call option - Diesel	Fair value	FVOCI	2,078	2,078
Total financial assets			4,233,381	4,232,325
Financial liabilities:				
Bonds payable	Financial liabilities	Financial liabilities	440,922	440,922
Borrowings	Financial liabilities	Financial liabilities	2,300,000	2,300,000
Trade and other payable	Financial liabilities	Financial liabilities	219,866	219,866
Interest rate swaps	Fair value	FVOCI	59,884	59,884
Total financial liabilities			3,020,672	3,020,672

The following table summarizes the changes in equity items that were modified as a result of the adoption of IFRS 9 as of October 1, 2018:

	Impact of adoption of IFRS 9 in the opening balance
Other equity accounts:	
Balance as of September 30, 2018	(56,959)
Recognition of expected credit losses for corporate debt securities at FVOCI	754
Balance as of October 1, 2018	(56,205)
Earnings available to distribute:	
Balance as of September 30, 2018	1,199,101
Recognition of expected credit losses for advances and other receivable to contractor	(526)
Recognition of expected credit losses for trade and other receivables	(37)
Recognition of expected credit losses for deposits over 90 days	(491)
Recognition of expected credit losses for corporate debt securities at FVOCI	(754)
Recognition of expected credit losses for cash and cash equivalents	(2)
Changes due to adoption of IFRS 9	(1,810)
Balance as of October 1, 2018	1,197,291

(27) Adoption of IFRS 9 Financial Instruments, continued

The following table reconciles the carrying value under IAS 39 to the carrying value under IFRS 9 on October 1, 2018:

Financial instruments	Carrying Value IAS 39 September 30, 2019	Reclassification	Remeasurement	Carrying value IFRS 9 October 1, 2018
Financial Assets				
Amortized cost				
Advances and other receivable to contractor				
Brought forward: Loans and receivables	840,111			
Remeasurement			(526)	
Carried forward: Amortized cost				839,585
Trade and other receivables				
Brought forward: Loans and receivables	54,227			
Remeasurement			(37)	
Carried forward: Amortized cost				54,190
Deposits over 90 days				
Brought forward: Held to maturiy	1,230,000			
Remeasurement			(491)	
Carried forward: Amortized cost				1,229,509
Cash and cash equivalents				
Brought forward: Held to maturiy	60,283			
Remeasurement			(2)	
Carried forward: Amortized cost				60,281
Total amortized cost	2,184,621	0	(1,056)	2,183,565
Fair Value OCI				
Corporate debt securities				
Brought forward: Available for sale	2,042,558			
Reclassified to: Fair Value OCI		2,042,558		
Carried forward: FVOCI				2,042,558
Interest rate swaps	4,124			4,124
Diesel swap contracts	2,078			2,078
Total fair value OCI	2,048,760	2,042,558	0	2,048,760
Financial liabilities				
Amortized cost				
Bonds payable	440,922			440,922
Borrowings	2,300,000			2,300,000
Trade and other payables	219,866			219,866
Total amortized cost	2,960,788	0	0	2,960,788
Fair value OCI				
Interest rate swaps	59,884			59,884
Total fair value OCI	59,884	0	0	59,884

(27) Adoption of IFRS 9 Financial Instruments, continued

The following table summarizes the additional impairment requirements as a result of the adoption of IFRS 9 as of October 1, 2018:

Loss allowance as of September 30, 2018 under IAS 39	
Additional impairment recognized at October 1, 2018 on:	
Advances and other receivable to contractor	526
Trade and other receivables	37
Time deposits over 90 days	491
Corporate debt securities	754
Cash and cash equivalents	2
Loss allowance as of October 1, 2018 under IFRS 9	1,810

(28) Related Party Transactions

Commercial transactions

During the year, the ACP executed the following commercial transactions with the following Republic of Panama institutions:

	Sale of goods and services Year ended		Purchase of goods and services Year ended	
	2019	**2018**	**2019**	**2018**
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	36,174	34,265	0	0
Other government entities	10,637	15,514	0	0
Caja de Seguro Social	0	0	79,723	78,545
Fees paid to Panamanian Treasury	0	0	534,521	503,686
	46,811	49,779	614,244	582,231

The following balances were outstanding at the end of the reporting period:

	Amounts owed by the Republic of Panama		Amounts owed to the Republic of Panama	
	2019	**2018**	**2019**	**2018**
Sale of potable water to the Instituto de Acueductos y Alcantarillados Nacionales (IDAAN)	7,656	7,545	0	0
Other government entities	14,198	9,079	7,189	3,855
Advance payment from Ministerio de Obras Públicas (MOP)	0	0	33,663	30,297
Caja de Seguro Social	0	0	32,756	31,123
Public service fees	0	0	44	175
Panamanian Treasury – fees per net ton	0	0	44,370	42,786
	21,854	16,624	118,022	108,236

(28) Related Party Transactions, continued

Amounts owed by and owed to the Republic of Panama are classified as accounts receivable and accounts payable, respectively.

Sales of goods and services to the Republic of Panama were made at ACP's usual list prices without discount.

The outstanding amounts are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior period for bad or doubtful debts with respect to the amounts owed by related parties.

Compensation and benefits to key executives

The ACP paid as of September 30, 2019 a total of B/.4,481 (2018: B/.3,391) for remuneration and benefits to its key management personnel. The Board of Directors compensation add a total of B/.467 (2018: B/.459). It is the responsibility of the Administration to determine the salaries of key management personnel in conformity with the Personnel Administration Regulations, subject to the Board of Directors ratification. It is the Board of Directors' responsibility to determine the salaries of the Administrator, Deputy Administrator, Inspector General and the Secretary of the Board of Directors.

(29) Commitments

The commitments for construction contracts in process and purchase orders, which are pending of delivery approximately amounted to B/.132,025 as of September 30, 2019 (2018: B/.230,485) as follows:

	2019	2018
Investment programs:		
Canal expansion	631	11,584
Others	70,188	150,812
Sub-total	70,819	162,396
Operations	61,206	68,089
	132,025	230,485

The commitments of the expansion program include the contracts awarded during the twelve months ending on September 30, 2019 B/.824 (2018: B/.17,314).

This balance also include CH2M HILL PANAMA S DE R L Technical Claim Support and Other Services related to the Third Set of Locks Contract for B/.1 (2018: B/.0).

Commitments of the investment program-others includes: Damen Shipyards Gorinchem VB for the replacement of the Titan Dredger for B/.37,010 (2018: B/.0); Puente Atlántico, S.A. for the construction of a bridge across the Canal at the Atlantic Side for B/.3,654 (2018: B/.40,084); and China Tiesiju Civil Engineering Group CO LTD for construction of new workshops and administrative offices of the Energy Division in Miraflores for B/.3,341 (2018: B/.0).

(29) Commitments, continued

The operating commitments include contracts awarded: for purchases of inventory for B/.17,482 (2018: B/.24,148), to Willis Towers Watson for the multi-year insurance policy for three years for B/.13,970 (2018: B/.0); Vinson & Elkins LLP for special legal advice services in the field of contracts for the Canal Expansion Program and jurisdictional representation for B/.3,959 (2018:B/.0); Mayer Brown LLP for Canal Expansion Program legal services for B/.3,019 (2018:B/.0).

Bond:
The ACP subscribes the following contracts for the purchase of energy, which are guaranteed with a compliance bond issued by a bank with investment grade A+ from Standards & Poors. ACP and Gas Naturgy for B/.3,285, ACP and ENSA for B/.2,503, and ACP and ETESA por B/.800.

(30) Contingent Liabilities

As of September 30, 2019, two of the arbitrations filed by GUPCSA and its shareholders (other than CUSA) against the ACP under the rules of the International Chamber of Commerce (ICC), concluded with arbitration awards in favor of the ACP: (i) arbitration No.1 of the Cofferdam, and; ii) arbitration No.5 of the advance payments.

Additionally, there are in process: (i) 2 arbitrations where the amounts claimed by GUPCSA to date total B/.1,210,296; and, (ii) 1 arbitration where the provisional amount, as set out in the Terms of Reference by GUPCSA, is between B/.1,500,000 to B/.2,000,000. The amount of these claims (which could change) will be confirmed when GUPCSA files its Statements of Claim.

The foregoing constitutes the contingent liability of the ACP resulting from the claims of GUPCSA, in relation to the Third Set of Locks. This contingent liability has no provisioned funds. The following describes general information about the status of these arbitrations:

The Concrete Arbitration

Two of the claims, on concrete mixtures and aggregates, were denied by the ACP and subsequently submitted by GUPCSA to the Dispute Adjudication Board (DAB), which, in deciding the case in December 2014, ordered the ACP to pay B/.233,234 plus interest, out of the B/.463,935 sought by GUPCSA (updated at the time of the decision). The ACP paid this amount, and subsequently paid B/.10,827 for additional costs incurred by GUPCSA after September 2014 until the concrete works were completed, in conformity with DAB No. 11 decision. Both sides then referred this dispute to arbitration in March 2015, in two separate arbitration proceedings, which resulted in a consolidated arbitration Case ICC No. 20910/ASM//JPA (C-20911/ASM//JPA). GUPCSA requested the inclusion, in this second arbitration, of Dispute 13A for B/.99,000, previously decided and rejected in its entirety in favor of the ACP by the DAB. GUPCSA and its shareholders (other than CUSA) claim from the ACP a total of B/.430,296 plus interest and the ACP, is in turn calling for the return of the amount that was paid pursuant to DAB decision in Dispute 11 for B/.244,061, Dispute 10 for B/.14,823 and Dispute 14B for B/.6,415. Likewise, the ACP claims Delay Damages (as provided for in the Contract) in an amount of B/.54,600 corresponding to 182 days. The closing hearing was held on October 12 and 13, 2019 and the Arbitration Award is expected by the beginning of the second half of 2020.

(30) Contingent Liabilities, continued

The Lock Gate Arbitration

In December 2016, GUPCSA submitted arbitration ICC No.22465/ASM//JPA, which included disputes 15, 6 and 13C regarding the design of gates and labor cost adjustments. In July 2017, GUPCSA submitted arbitration ICC No. 22966/JPA concerning the same claims. Subsequently, both arbitrations were consolidated in the arbitration ICC No. 22465/ASM//JPA (C-22966/JPA). On October 8, 2019, the Case Management Conference was held in which the Terms of Reference ("TOR") were signed and the procedural calendar was set. GUPCSA must present its Statement of Claim on March 16, 2020. The amount claimed as stated by GUPCSA in the TOR, amounts to B/.780,000.

The Disruption and other claims arbitration

In December 2016, GUPCSA submitted arbitration ICC No. 22466/ASM//JPA which, it is understood, includes all of GUPCSA's claims up to the date of Taking Over that have not already been included in arbitration, and which includes the claim for disruption (Claim 78) and some new claims that had not been the subject of the contractual dispute resolution procedure required prior to Arbitration. In July 2017, GUPCSA submitted arbitration ICC No. 22967/JPA concerning the very same claims. Subsequently, in both arbitrations, the same arbitral tribunal was constituted and arbitration ICC Case No. 22967 / JPA was consolidated with the arbitration ICC No. 22466/ASM//JPA. A second procedural hearing took place on May 2, 2019. The claims were divided into two large groups: 1 and 2, and a procedural calendar was agreed for each group. GUPCSA must present its Statements of Claim during 2020. The provisional amount claimed in this arbitration, as stated by GUPCSA in The Terms of Reference, is between B/.1,500,000 to B/.2,000,000. However, the amount will be updated by GUPCSA at the time of submission of its Statements of Claim.

Others:

During fiscal year 2019, the ACP received marine claims for an amount of B/.3,184.

On the other hand, miscellaneous claims were received in the amount of B/.10,755.

The ACP maintains to date (September 30, 2019) claims related to various construction contracts, for an amount of B/.8,690.

In addition, there are six claims related to the Contract for the Construction of a Bridge across the Canal at the Atlantic side, which are compiled in a single arbitration process for an amount of B/.218,031, which includes the costs of the process.

(30) Contingent Liabilities, continued

On November 18, 2016, the ACP learned that a bailiff (*huissier de justice*) in France had ordered a branch in Paris of a Bank whose parent company is in the United Kingdom, a cautionary measure on a time deposit of approximately B/.49,356 that the ACP maintained in that Bank´s branch in New York. As a result of the above, the Bank's branch in Paris accepted the order and froze the ACP monies deposited at the branch in New York. The measure imposed was based on an arbitration award issued on January 27, 2005 in favor of the plaintiff and against the Panama Transit and Land Transportation Authority and, subsidiarily, the Republic of Panama. The plaintiff alleges in its claim that the ACP was jointly and severally liable with the Republic of Panama for this obligation. The ACP, which is an autonomous legal entity with its own assets, as established by the Political Constitution of the Republic of Panama, is not part of the controversy that originated this award and is not in solidarity with the Republic of Panama; therefore, the ACP rejected the legitimacy of the precautionary measure and filed a request to lift it and requested its dissociation of the process, since ACP was not part of the dispute. On April 26, 2017, a judge issued his decision ordering the lifting of the cautionary measure, so that all of the funds subject to the injunction were released and transferred to the ACP. This decision was confirmed by the Court of Appeal of Paris, by judgment issued on May 24, 2018. On May 24, 2019, the plaintiff filed a recourse of “Cassation” before the French Court of Cassation against the decision of the Court of Appeals of Paris, so the ACP filed its opposition to such recourse. To date, it is pending that the Court of Cassation set a date for the substantiation of the opposition and then issues its decision.

The notes contained herein are related to claims against the ACP, therefore, cannot and should not be considered as support or proof of acceptance of responsibility on the part of the ACP. In the opinion of the Administration and its legal counsel, the determination of these matters will not have adverse effects of a significant nature on the financial position of the ACP.

(31) Events that Occurred after the Reporting Period

The Board of Directors approved at its meeting on December 12, 2019, the transfer to the National Treasury of the operating and functioning economic surplus corresponding to fiscal year 2019 by the amount of B/.1,251,892. (See note 15).