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Global Bank Corporation and Subsidiaries

Consolidated financial statements for the year ended June 30, 2020 and Independent Auditors' Report

"This document has been prepared with the understanding that its contents will be made available to investors and the general public"

Deloitte LATCO
Firma miembro de
Deloitte Touche Tohmatsu Limited

Global Bank Corporation and Subsidiaries

Independent Auditors’ Report and Consolidated Financial Statements
As of June 30, 2020

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FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of
Global Bank Corporation

Opinion

We have audited the accompanying consolidated financial statements of **Global Bank Corporation and Subsidiaries** ("the Bank"), which comprise the consolidated statement of financial position as of June 30, 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, as well as a summary of the significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements fairly represent, in all material aspects, the consolidated financial situation of the Bank as of June 30, 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for the Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities in accordance with these standards are further described in the Auditor´s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent from the Bank in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accounting Professionals (IESBA Code) and the Professional Code of Ethics for Authorized Public Accountants in Panama (Chapter V of Law 57 of September 1, 1978), and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Provision for loan losses
See Notes 3.6.9, 4.2.2.1.2 and 5 of the consolidated financial statements.

Key audit matter

The estimate of the provision for expected credit losses (ECP) on loans is one of the most significant and complex estimates in the preparation of the consolidated financial statements due to the level of judgment applied by Management in measuring loan impairment provisions. As of June 30, 2020, the gross carrying value of the loan portfolio represents 74% of the Bank's assets.

The processes of these models require an increased level of judgment in the determination of ECLs considering factors such as the identification and staging of impaired assets or with a significant increase in credit risk, development of the probability of default (PD) and loss given default (LGD), and the use of assumptions such as macroeconomic scenarios and segmentation criteria.

This is a challenge from an audit perspective due to the complexity in estimating the components used to perform these calculations and the application of Management's judgment.

How our audit addressed the key audit matter

Our work on the estimation of the provision for ECL in loans focused on the assessment of internal controls, as well as conducting detailed tests on credit risk provisions. Specifically, our audit procedures in this area include, among others:

- We have evaluated the key controls on the ECL estimation process.
- We involved specialists to determine that the methodologies used by the Bank were appropriate according to the IFRS framework.
- We tested a sample of significant loans not identified as impaired and challenged Management's assumptions about its conclusion that the loan was not impaired by reviewing the loan risk profile using the updated credit and financial information of the credit file and taking in consideration, when available, public information that will show an impairment event.
- We tested a sample of impaired loans and evaluated the measurement of impairment made by Management through: a) the assessment of the assumptions and judgments that Management made to determine the value of future cash flows expected to be received and (b) recalculating the value of provisions.
- Control tests, assisted by our information systems specialists, to test delinquencies in the loan portfolio and to prove the accuracy and completeness of the information used to calculate the parameters for the establishment of the ECLs.

- We involved specialists to reprocess the methodologies used by Management in determining the provisions for ECL.

- We tested the main models with respect to: i) methodology used to estimate the expected loss parameters, ii) information used in the calculation and generation, and iii) criteria for the significant increase in credit risk and stage classification of loans.

- We involved specialists in the evaluation of the judgments applied by Management on assumptions regarding the current conditions of the economy and considerations on the prospective analysis that can change the level of ECPs, based on our experience and knowledge of the industry.

Goodwill impairment
See Notes 3.16, 5 and 13 of the consolidated financial statements

Key Audit Matter

As described in Notes 3.16, 5 and 13 of the consolidated financial statements, the balance of the Bank's consolidated goodwill was B/.92,014,817 as of June 30, 2020. The Bank evaluates goodwill for impairment recognized in business combinations at least annually or more frequently if events or changes in circumstances indicate that the carrying value of the cash-generating units may not be recoverable.

An impairment loss is recognized for the amount by which the carrying value of the cash-generating unit exceeds its recoverable amount. The recoverable amount is determined by Management by reference to market value, if available, by pricing models or with the assistance of a valuation specialist. Determination of recoverable amount requires Management to make assumptions and use estimates to forecast cash flows for periods that are beyond normal management reporting requirements; evaluation of the appropriate discount rate and growth rate; and estimation of the recoverable amount of the cash-generating units.

How our audit addressed the key audit matter

Our work on the estimation of the recoverable value of the Banvivienda generating unit, as well as whether there was impairment, has focused on the evaluation of internal controls, as well as the performance of detailed tests on the estimates of recoverable value. Specifically, our audit procedures in this area include, among others:

- We evaluated the key controls on the process of estimating recoverable value and determining impairment losses.

- We involved specialists to: (a) determine that the methodology used by the Bank was appropriate according to the IFRS reference framework; (b) reprocess the methodology used by Management in determining the recoverable value of the generating unit. (c) assessment that the assumptions used by Management were reasonable considering: (i) current and past performance of the cash generating unit, (ii) consistency with external market and industry data, (d) assessment of the Bank's discounted cash flow model and certain significant assumptions, including thediscount rate and growth rate.

The goodwill assigned to Banvivienda represents 82% of the goodwill value. Given the short period of time between the acquisition and the balance sheet date and the current economic conditions caused by COVID-19, we consider the impairment of goodwill of the Banvivienda generating unit to be a critical audit issue.

In turn, this led to a high degree of judgment by the auditor, subjectivity and effort in performing procedures to evaluate cash flow projections and significant Management assumptions, including the discount rate and growth rate. In addition, the audit effort involved the use of professionals with specialized skills and knowledge to help perform these procedures and evaluate the audit evidence.

- We tested the integrity, accuracy and relevance of the underlying data used in the model.

Matter of Emphasis

We draw attention to Note 35 of the consolidated financial statements, which describes the uncertainty arising from the possible impact of COVID-19. Our opinion remains unchanged with respect to this matter.

We call attention to Note 37 of the consolidated financial statements, which has been included in these consolidated financial statements submitted to include the additional disclosures on modified loans in accordance with Agreement 2-2020, required by the Superintendency of Banks of Panama according to note SBP-DR-N-4489-2020 dated September 10, 2020.

Management's Responsibilities and of Those in Charge of Governance for the Consolidated Financial Statements

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

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

Those in charge of the Bank's corporate governance are responsible for overseeing the financial reporting process of the Bank.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the International Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error; we 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 controls.

- 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 Bank's internal controls.

- 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 Bank to cease to continue as a going concern.

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

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statement. We are responsible for the direction, supervision and development of the Bank's audit. We are solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Luis Castro.

(Signed by Deloitte)

August 20, 2020, except for Note 37,
which is dated October 27, 2020
Panama, Republic of Panama

Global Bank Corporation and Subsidiaries

Consolidated statement of financial position
As of June 30, 2020
(In balboas)

	Notes	2020	2019
Assets			
Cash and bank deposits	7,15	588,475,965	607,655,790
Securities purchase under resale agreements	8	5,062,025	5,061,874
Investments in securities	6,9,15	1,024,669,796	851,727,771
Loans	6,10	6,169,417,198	6,264,500,855
Property, furniture, equipment and improvements	11	199,336,110	200,120,952
Right-of-use assets	12	22,509,385	-
Other assets	6,13	506,656,251	490,842,419
Total assets		8,516,126,730	8,419,909,661
Liabilities and equity			
Liabilities			
Customer deposits	6,14	5,099,002,031	4,831,380,464
Bank deposits		72,765,182	66,350,205
Obligations with financial institutions	9,15	1,074,122,772	920,612,697
Marketable securities	16	23,300,000	59,409,000
Corporate bonds	17	1,133,628,975	1,442,261,398
Subordinated bonds	18	7,898,069	7,892,580
Perpetual bonds	19	137,089,374	127,659,710
Lease liabilities	12	23,511,572	-
Other liabilities	6,20,21	162,832,084	185,323,778
Total liabilities		7,734,150,059	7,640,889,832
Equity			
Common shares	22	270,202,657	270,202,657
Excess paid-in capital	26	1,999,307	2,514,337
Capital reserve		32,324,680	32,324,680
Regulatory reserve	34	106,968,271	104,182,957
Fair value reserve		1,439,777	6,099,208
Retained earnings		369,041,979	363,695,990
Total equity		781,976,671	779,019,829
Total liabilities and equity		8,516,126,730	8,419,909,661

The accompanying notes are an integral part of these consolidated financial statements.

Global Bank Corporation and Subsidiaries

Consolidated statement of profit or loss
For the year ended June 30, 2020
(In balboas)

	Notes	2020	2019
Interest income	6	473,786,503	432,643,589
Interest expense	6	(297,018,456)	(276,459,794)
Net interest income	23	176,768,047	156,183,795
Commission income		55,142,823	59,541,734
Commission expense		(15,046,610)	(14,066,270)
Net commission income	23	40,096,213	45,475,464
Net interest and commission income	23	216,864,260	201,659,259
Other income	24	16,037,291	10,419,541
		232,901,551	212,078,800
Other expenses			
Provision for loan impairments	4.2.2.1.2	64,130,563	29,422,096
Provision for country risk		78,507	227,252
Reversal of reserve for investment impairments	4.2.2.2	(817,063)	(171,691)
Salaries and other compensations	6	58,321,203	57,575,023
Professional fees		7,475,531	9,323,539
Depreciation and amortization	11,12,13	20,152,014	17,213,678
Marketing and advertising		3,360,701	3,847,591
Maintenance and repairs		10,199,618	10,040,674
Leases		2,058,186	5,972,039
Other taxes		5,888,839	6,808,173
Other expenses	25	24,366,362	25,429,488
		195,214,461	165,687,862
Profit before income tax		37,687,090	46,390,938
Income tax:			
Current		3,719,979	2,993,545
Deferred		(8,335,092)	(2,590,718)
Income tax	30	(4,615,113)	402,827
Profit for the year		42,302,203	45,988,111

The accompanying notes are an integral part of these consolidated financial statements.

Global Bank Corporation and Subsidiaries

Consolidated statement of profit or loss and other comprehensive income
For the year ended June 30, 2020
(In balboas)

	2020	2019
Profit for the year	42,302,203	45,988,111
Other comprehensive income:		
Items that can later be reclassified to profit or loss:		
Net amount transferred to profit or loss	(7,409,280)	(834,108)
(Reversal) reserve for investments	(876,815)	185,489
Net changes in the valuation of investments at fair value through other comprehensive income	(4,326,182)	6,323,315
Effect in the fair value of reclassified investments from the amortized cost category	7,952,846	-
Other comprehensive income of the year	(4,659,431)	5,674,696
Total other comprehensive income of the year	37,642,772	51,662,807

The accompanying notes are an integral part of these consolidated financial statements.

Global Bank Corporation and Subsidiaries

Consolidated statement of changes in equity
For the year ended June 30, 2020
(In balboas)

	Notes	Total shareholders' equity	Common shares	Excess paid-in capital	Capital reserves	Regulatory reserve	Fair value reserves	Retained earnings
Balance as of June 30, 2018		611,527,477	98,202,657	2,325,817	32,324,680	90,582,283	1,265,714	386,826,326
Effects of IFRS adoption		(29,310,915)	-	-	-	-	(841,202)	(28,469,713)
Balance as of July 1, 2018		582,216,562	98,202,657	2,325,817	32,324,680	90,582,283	424,512	358,356,613
Profit for the year		45,988,111	-	-	-	-	-	45,988,111
Reserve for investments		185,489	-	-	-	-	185,489	-
Net changes in the valuation of investments at fair value through other comprehensive income		5,489,207	-	-	-	-	5,489,207	-
Total comprehensive income for the year		51,662,807	-	-	-	-	5,674,696	45,988,111
Excess paid-in capital - share option plan for employees	26	188,520	-	188,520	-	-	-	-
Issuance of common shares		172,000,000	172,000,000	-	-	-	-	-
Dividends paid - common shares	22	(27,576,380)	-	-	-	-	-	(27,576,380)
Complementary tax		(1,109,227)	-	-	-	-	-	(1,109,227)
Dynamic reserve	34	-	-	-	-	20,250,043	-	(20,250,043)
Regulatory reserve	34	1,637,547	-	-	-	9,619,521	-	(7,981,974)
Reversal of excess in regulatory reserve	34	-	-	-	-	(16,268,890)	-	16,268,890
Balance as of June 30, 2019		779,019,829	270,202,657	2,514,337	32,324,680	104,182,957	6,099,208	363,695,990
Profit for the year		42,302,203	-	-	-	-	-	42,302,203
Reversal of reserve for investments		(876,815)	-	-	-	-	(876,815)	-
Net changes in the valuation of investments at fair value through other comprehensive income		(3,782,616)	-	-	-	-	(3,782,616)	-
Total comprehensive income for the year		37,642,772	-	-	-	-	(4,659,431)	42,302,203
Excess paid-in capital - share option plan for employees	26	(515,030)	-	(515,030)	-	-	-	-
Dividends paid - common shares	22	(33,772,382)	-	-	-	-	-	(33,772,382)
Complementary tax		(398,518)	-	-	-	-	-	(398,518)
Regulatory reserve	34	-	-	-	-	2,785,314	-	(2,785,314)
Balance as of June 30, 2020		781,976,671	270,202,657	1,999,307	32,324,680	106,968,271	1,439,777	369,041,979

The accompanying notes are an integral part of these consolidated financial statements.

Global Bank Corporation and Subsidiaries

Consolidated statement of cash flows
For the year ended June 30, 2020
(In balboas)

	Notes	2020	2019
Cash flows from operating activities			
Profit for the year		42,302,203	45,988,111
Adjustments for:			
Depreciation and amortization	11,12,13	20,152,014	17,213,678
Gain on sale of property, furniture and equipment		(5,968)	(10,066)
Disposal of fixed asset		40,921	(1,898,314)
Gain on sale of securities at fair value through other comprehensive income	9	(7,409,280)	(834,108)
Net loss (gain) on instruments at fair value through profit or loss	24	197,518	(12,226)
Net loss on derivative financial instruments	24	7,720,145	1,624,130
Reserve for loan losses, net	4.2.2.1.2	64,130,563	29,422,096
Reserve for investments, net	4.2.2.2	(817,063)	(171,691)
Income tax	30	(4,615,113)	402,827
Net interest and commission income	23	(473,786,503)	(432,643,589)
Interest expenses	23	297,018,456	276,459,794
Share option plan for employees	26	(515,030)	188,520
Effect of IFRS adoption		-	(28,469,713)
Deferred tax		(8,015,678)	(12,211,962)
		(63,602,815)	(104,952,513)
Changes in:			
Deposits with maturities greater than 90 days		18,452,784	49,286,469
Securities purchases under resale agreements		(151)	(2,034,822)
Loans		30,953,094	8,694,245
Other assets		47,708,250	(29,610,473)
Customer deposits		267,621,567	38,537,209
Bank deposits		6,414,977	(52,253,864)
Other liabilities		(3,113,717)	(20,957,322)
Cash generated by (used in) operations		304,433,989	(113,291,071)
Income tax paid		(8,680,834)	(4,919,488)
Interest received		427,849,243	408,378,042
Interest paid		(294,913,529)	(272,492,905)
Net cash flows provided by operating activities		428,688,869	17,674,578
Cash flows from investment activities			
Purchase of securities at fair value through other comprehensive income		(1,123,208,095)	(386,117,091)
Sale of securities at fair value through other comprehensive income	9.1	983,094,209	388,886,673
Purchase of investments at fair value through profit or loss		-	(900,000)
Redemption of investments at fair value through profit or loss		18,999,999	2,000,000
Purchase of investments at amortized cost		(86,947,903)	(20,513,511)
Redemption of investments at amortized cost		28,934,303	42,791,733
Purchase of property, furniture and equipment	11	(14,425,682)	(19,698,644)
Proceeds from sale of property, furniture and equipment		5,968	-
Acquisition value paid		-	131,133,563
Net cash flows (used in) provided by investment activities		(193,547,201)	137,582,723
Cash flows from financing activities			
Payments made for repurchase agreement transactions		-	(81,243,859)
Obligations received of financial institutions	15	1,054,577,680	1,653,567,612
Obligations paid to financial institutions	15	(901,067,605)	(1,574,763,649)
Proceeds from marketable securities issuance	16	23,300,000	58,115,119
Payments for redemption of marketable securities	16	(59,409,000)	(100,005,966)
Proceeds from bond issuance	19	93,235,000	322,965,552
Redemption of bonds	19	(409,897,000)	(340,932,184)
Dividends paid - common shares	22	(33,772,382)	(27,576,380)
Proceeds from common share issuance		-	112,000,000
Lease payment		(2,436,884)	-
Income tax		(398,518)	(360,685)
Net cash flows (used in) provided by financing activities		(235,868,709)	21,765,560
Net (decrease) increase in cash and cash equivalents		(727,041)	177,022,861
Cash and cash equivalents at the beginning of the year		559,978,798	382,955,937
Cash and cash equivalents at the end of the year	7	559,251,757	559,978,798
Transactions that do not generate cash flow			
Increase of right-of-use assets and lease liabilities / Adoption of IFRS 16	12	25,520,133	-

The accompanying notes are an integral part of these consolidated financial statements.

1. General information

Global Bank Corporation (the "Bank") is incorporated in the Republic of Panama, and started its operations on June 1994 under a general banking license granted by the Superintendency of Banks of Panama, which enables it to carry out banking business in Panama and outside the Republic of Panama. Its main activity is related to commercial and consumer banking.

The Bank's headquarters are located at Santa Maria Business District, Panama, Republic of Panama.

The Bank is a wholly owned subsidiary of G.B. Group Corporation, an entity incorporated on April 20, 1993 according to the laws of the Republic of Panama.

The Bank has an Investment Management License granted by the Superintendency of Securities Market of Panama through Resolution SMV 46-17 of February 1, 2017.

Through Resolution SBP-0077-2019 of the Superintendence of Banks of Panama, the merger by absorption is authorized of the banking entities Global Bank Corporation, Banco Panameño de la Vivienda, S.A. and the company GB, AV INC., all belonging to the same economic group, of which, Global Bank Corporation is the surviving company. The effective date of the merger was June 1, 2020.

The main activity of the Subsidiaries is described in Note 33.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

2.1 Standards and interpretations adopted with effects on the consolidated financial statements

For the year ended June 30, 2020, the following IFRS standards and their interpretations ("IFRIC") became effective, which had an impact on the Bank's consolidated financial statements.

IFRS 16 - Leases

IFRS 16 introduces new requirements and amendments to the previous requirements with respect to lease accounting. This standard introduces significant changes to the lessee's accounting by removing the distinction between operating and financial leases and requiring the recognition of a right of use asset and a lease liability at the start date of the lease for all leases, except for short-term leases and low-value leases. In contrast to the lessee's accounting, the requirements for the lessor do not change significantly. In addition, IFRS 16 establishes a comprehensive model for the identification of lease agreements. IFRS 16 replaced the practical guide included in IAS 17 *Leases and their interpretations*. The initial application date of IFRS 16 for the Bank was July 1, 2019.

The Bank has selected to implement the cumulative update approach of IFRS 16 in accordance with paragraph 5(b) of Appendix C of the standard. The Bank will not reissue consolidated financial statements with the application of this approach contained in the Standard.

Impact of the new definition of lease

The Bank used the practical solutions available in the transition section of IFRS 16 in order not to re-evaluate whether a contract is or contains a lease. Consequently, the definition of a lease in accordance with IAS 17 - *Leases and IFRIC 4 - Determining whether an arrangement contains a lease* continued to apply for those leases incorporated or modified prior to July 1, 2019.

The main changes to the definition of a lease are associated with the concept of control. IFRS 16 distinguishes between leases and service contracts based on whether an identified asset is controlled by a customer. Control is deemed to exist if the customer has control:

- The right to obtain substantially all of the economic benefits associated with the use of an identified asset, and
- The right to direct the use of an asset.

The Bank applied the definition of a lease and related guide set forth in IFRS 16 for all leases entered into or modified on or after July 1, 2019 (whether a lessor or lessee agreement). In preparation for the first-time application of IFRS 16, the Bank conducted an implementation project. The project has demonstrated that the new definition in IFRS 16 did not significantly change the scope of contracts that meet the definition of a lease for the Bank.

Impact on lessee's accounting

Leases treated as operating leases under IAS 17.

IFRS 16 changes the way the Bank accounted for operating leases previously classified as operating leases under IAS 17, which were off-balance.

On initial application of IFRS 16, for all leases (except as noted below), the Bank recognized:

a) Assets for right of use and liabilities for leases in the consolidated statement of financial position, initially measured at the present value of future lease payments.
b) Depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.
c) The total amount of cash paid as principal (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g., the rent-free period) are recognized as part of the measurement of right-of-use assets and lease liabilities, whereas under IAS 17, recognition of a lease incentive liability was required, which is amortized as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 - Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous leases.

For short-term leases (lease term of 12 months or less) and low value leases (such as laptops and office furniture), the Bank elected to recognize a straight-line lease expense as permitted by IFRS 16.

Leases treated as finance leases under IAS 17.

The main difference between IFRS 16 and IAS 17 with respect to assets previously held as finance leases is the measurement of the residual value of the collateral provided by the lessee to the lessor. IFRS 16 requires the Bank to recognize as part of the financial liability only the amounts expected to be paid under the residual value of the guarantee, instead of the maximum guaranteed value required by IAS 17. This change does not have a material impact on the Bank's consolidated financial statements.

Impact of the application of IFRS16 on the 2019 consolidated financial statements.

- With the implementation of IFRS 16, there was no impact on retained earnings in the consolidated financial statements at the date of initial application because the value of use of the assets was recognized for an amount similar to the value of the lease liability, adjusted by the values of any advance lease payments or accumulated pending payments, based on the option selected in that standard.

- On the initial application date, the Bank recognized a right-of-use asset and a lease liability for B/.25,520,133. (See Note 12).

- In the adoption process, lease liabilities were measured at the present value of the remaining payments, discounted at an incremental funding rate as of July 1, 2019. The rate used for the implementation was based on the Bank's curve (rate), country risk, and the risk-free rate. As of July 1, 2019, the rate determined by the Bank was between 2.82% and 3.43%.

2.2 Standards and interpretations adopted without significant impact on the consolidated financial statements

The following International Financial Reporting Standards (IFRSs) or International Financial Reporting Standards Interpretations (IFRICs), effective for the year beginning July 1, 2019, did not have a significant effect on the consolidated financial statements.

Amendments to IFRS 9 - Prepayment features with negative compensation

The Bank adopted the amendments to IFRS 9 for the first time in the current period. The amendments to IFRS 9 clarify that, for purposes of assessing whether a prepayment meets the 'p & i only' condition ("p & i only"), the party exercising the option may pay or receive reasonable compensation for the prepayment regardless of the prepayment reason. In other words, financial assets with prepayment features that are negatively compensated, do not necessarily fail the PPI test.

Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures

The Bank adopted the amendments to IAS 28 for the first time in the current period. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applicable.

This includes long-term investments that, in substance, are part of net investments in an associate or joint venture. In applying IFRS 9, the Bank does not take into account any of the adjustments to the carrying amount of long-term investments required by IAS 28 (e.g., adjustments to the carrying amount of long-term investments arising from the allocation of losses of the investee or the assessment of impairment under IAS 28).

Annual Improvements to IFRSs on 2017 Cycle 2015

The Bank has adopted the amendments included in the annual improvements to IFRS Standards for the 2015-2017 cycle for the first time in the current period. The annual improvements include amendments to four standards below:

IAS 12 Income taxes

The amendments clarify that the income tax consequences of dividends must be recognized in the statement of income, other comprehensive income or equity as the transactions that generated the distributable earnings were originally recognized. This applies regardless of whether different tax rates apply to distributed and undistributed earnings.

IAS 23 – Borrowing costs

The amendments clarify that, if any specific loan is held pending after the related asset is ready for its intended use or sale, the loan is part of the borrowed funds when calculating the capitalization rate for general loans.

IFRS 3 – Business combinations

The amendments clarify that when control is obtained over a business that is a joint venture, the requirements for a staged business combination apply, including reassessing your previously held interest ("PHI") in the joint venture at fair value. The previously held interest subject to remediation includes the unrecognized assets, liabilities and goodwill relating to the joint venture.

IFRS 11 – Joint arrangements

The amendments clarify that when a party participating in a joint venture did not have joint control, and then obtains joint control, the previously held interest in the joint venture should not be reassessed.

Amendments to IAS 19 - Modification, Reduction or Termination of the Employee Benefit Plan

The amendments clarify that past service cost (or settlement gain or loss) is calculated by measuring the defined benefit liability or asset, using current assumptions and comparing the benefits provided and the plan assets before and after the modification (reduction or settlement) of the plan, but ignoring the effect of the asset ceiling (which may arise when the defined benefit plan is in a surplus position). IAS 19 now clarifies that the change in the asset ceiling effect that may result from the modification (reduction or termination) of the plan is determined through a second step and is recognized in other comprehensive income on a normal basis.

Paragraphs related to the measurement of current service cost and net interest on the defined benefit liability (asset). Updated remediation assumptions will now be required to be used to determine current service cost and net interest after the modification (curtailment or settlement) of the plan and for the remainder of the reporting period. In the case of net interest, the amendments make it clear that for the period after the modification (curtailment or settlement) of the plan, net interest is calculated by multiplying the liability (asset) by revalued defined benefits in accordance with IAS 19. With the discount rate used in the new remediation (taking into account the effect of contributions and benefit payments on the liability (asset) by net defined benefit.

IFRIC 23 - Uncertainty in the treatment of income taxes

IFRIC 23 establishes how to determine the tax accounting position when there is uncertainty regarding income tax treatments. The interpretation requires:

- Determining whether the uncertain tax positions are valued separately or as a group; and
- Assessing whether the tax authority is likely to accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax returns:
- If yes, the accounting tax position must be determined in a manner consistent with the tax treatment used in income tax returns.
- If no, the effect of the uncertainty in determining the accounting tax position should be reflected using the most likely amount or the expected value method.

2.3 New and revised IFRS issued, but not yet effective

New standards, interpretations and amendments to accounting standards have been published, but are not mandatory for the year ended June 30, 2020, and have not been adopted early by the Bank. The main changes to these new standards are presented below:

IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures:

Transfer or contribution of assets between an investor and its associate or joint venture

IFRS 10 requires full recognition of the gain or loss on the loss of control of the subsidiary including the sale or contribution of the joint venture subsidiary or associate. To address this conflict, IASB has issued amendments to IFRS 10 and IAS 28.

Amendment to IFRS 10 - Consolidated Financial Statements

The amendment to IFRS 10 introduces an exception to the general requirements of full recognition of gain or loss in the loss of control over the subsidiary. If a parent loses control of a subsidiary that does not contain a business, as defined in IFRS 3 as a result of a transaction involving an associate or joint venture that is accounted for using the equity method, the parent shall determine the gain or loss arising from the transaction, including amounts previously recognized in other comprehensive income, to be recognized in the parent's profit or loss for the period only to the extent of the parent's interest in that associate or joint venture of other non-investor investors. The remaining portion of the gain shall be eliminated against the carrying value of the investment in that associate or joint venture. In addition, if the parent entity retains an investment in the former subsidiary and that subsidiary is now an associate or joint venture that is accounted for using the equity method, the parent entity shall recognize the portion of the gain or loss resulting from remeasuring the fair value of the investment retained in that former subsidiary in its profit or loss for the period only to the extent of the interests in the new associate or joint venture of other non-investor investors. The remaining portion of that gain will be eliminated against the carrying value of the investment retained in the former subsidiary.

If the parent company retains an investment in the former subsidiary that is now accounted for in accordance with IFRS 9, the portion of the gain or loss arising from the new measurement at fair value of the investment retained in the former subsidiary will be recognized in full in the parent company's profit or loss for the period.

Amendment to IAS 28 - Investments in associates and joint ventures

Gains or losses from “upstream” and “downstream” transactions involving assets that do not constitute a business, as defined in IFRS 3, between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognized in the entity's consolidated financial statements only to the extent of the interests in the associate or joint venture of other investors not related to the investor. Upstream” transactions are, for example, sales of assets from the associate or joint venture to the investor. Downstream” transactions, e.g., sales or contributions of assets from the investor to the associate or joint venture, are “downstream” transactions. When the downstream transactions provide evidence of a reduction in the net realizable value of the assets to be sold or contributed, or an impairment of those assets, the losses are recognized in full by the investor. When the upstream transactions provide evidence of a reduction in the net realizable value of the assets to be purchased or an impairment of those assets, the investor will recognize its share of those losses.

The effective date of application of these amendments has not yet been established by the IASB.

IFRS 17 – Insurance contracts

In May 2016, the IASB issued IFRS 17 to replace IFRS 4. Accounting for insurance contracts requires entities to separate specified embedded derivatives, investment components, and performance obligations of insurance contracts in order to separately recognize, present, and disclose insurance revenue, insurance service expense, and insurance finance income or expense. However, a simplified measurement method is permitted to measure the service-related amount remaining by allocating the premium during the coverage period.

This IFRS is mandatory for periods beginning on or after January 1, 2023 and earlier application is permitted. Management is in the process of evaluating the impact of adopting IFRS 17 on the Bank's consolidated financial statements and disclosures.

Amendments to IFRS 3 – Definition of a business

The amendments clarify that, while businesses usually have outputs, these are not required for a number of integrated activities and assets to qualify as a business. To qualify as a business, a series of acquired activities and assets must include, at a minimum, an input and a substantial process that together contribute significantly to the ability to generate outputs.

Additional guidance is provided to help determine whether a substantial process has been acquired.

The amendments introduce an optional test to identify fair value concentration, which allows a simplified assessment of whether a series of acquired activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar assets.

The amendments apply prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first reporting period beginning on or after January 1, 2020, with early adoption permitted. The Bank's Management does not anticipate that the application of the amendments in the future will have an impact on the consolidated financial statements.

Amendments to IAS 1 and IAS 8 - Definition of Materiality

The amendments are intended to simplify the definition of materiality contained in IAS 1, making it easier to understand, and are not intended to alter the underlying concept of materiality in IFRSs. The concept of concealing material information with immaterial information has been included in the new definition.

The limit for influencing materiality for users has been changed from “could influence” to “could reasonably be expected to influence”.

The definition of materiality in IAS 8 has been replaced by a reference to the definition of materiality in IAS 1. In addition, the IASB amended other standards and the Conceptual Framework that contained a definition of materiality or reference to the term materiality to ensure consistency.

The amendment will be applied prospectively for reporting periods beginning on or after January 1, 2020, with early application permitted. The Bank’s Management does not anticipate that future application of the amendments will have an impact on the consolidated financial statements.

Conceptual Framework of IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on March 29, 2018, the IASB also issued amendments to references to the IFRS Standards' Conceptual Framework. The document contains amendments to IFRSs 2, 3, 6, 14, IAS 1, 8, 34, 37, 38, IFRIC 12, 19, 20, 22, and SIC 32.

However, not all amendments update the pronouncements regarding references to the conceptual framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version they refer to (the IASC Framework adopted by the IASB in 2001, the 2010 IASB Framework or the revised 2018 Framework) or to indicate that the definitions in the Standard have not been updated with new definitions developed in the revised Framework.

The amendments, which are really updates, are effective for annual periods beginning on or after January 1, 2020, with early adoption permitted. The Bank’s Management does not anticipate that future implementation of the amendments will have an impact on the consolidated financial statements.

3. Significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of presentation

The consolidated financial statements have been prepared under the historical cost basis, except investments available for sale through profit and loss, investments available for sale through other comprehensive income, liabilities with fair value hedges and derivative instruments, which are stated at fair value.

The historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using other direct valuation techniques. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if the market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value, for the purposes of measurement and/or disclosure in these consolidated financial statements, is determined on such a basis, except for share-based payment transactions that are within scope of IFRS 2, leasing transactions that are within scope of IFRS 16, and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in IAS 2 or value-in-use in IAS 36.

3.3 Basis of consolidation

The consolidated financial statements include the Bank and its subsidiaries, in which it has control. Control is achieved when all the following three criteria are met:

- Has power over investment,
- Is exposed, or has rights, to variable returns from its involvement with the entity, and
- Has the ability to affect those returns through its power over the entity in which it invests.

The Bank reassesses whether it controls an entity if the facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than the majority of the voting rights over an investee, has control over an investee when the voting rights give it the current ability to direct the relevant activities of the investee, which are the activities that significantly affect the return of the investee. The Bank considers all the facts and circumstances to evaluate if the voting rights over an investee are sufficient to have power including:

- The size of the Bank´s participation of voting rights relative to the size and dispersion of holding of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders´ meeting.

Subsidiaries are consolidated from the date on which the Parent Bank obtains control until the moment the control ends. The results of subsidiaries acquired or disposed during the year are included in the consolidated statement of profit or loss from the effective date of acquisition or from the disposal effective date, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Bank´s accounting policies.

All balances and transactions between the Bank and its subsidiaries have eliminated in full on consolidation.

Changes in the Banks' ownership interests in existing subsidiaries

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions.

When the Bank loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the consideration received and the fair value of any retained interest and (ii) the previous carrying value of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (reclassified to profit or loss transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.4 Foreign currency transactions

Assets and liabilities held in foreign currencies are converted at the exchange rate effective at the date of the consolidated statement of financial position, except for those transactions with contractually agreed fixed exchange rates. Foreign currency transactions are recorded at the exchange rates effective at the dates of the transactions. Gains or losses from foreign currency translation are reflected in the accounts of other income or other expenses in the consolidated statement of profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. The foreign currency differences arising in the retranslation are recognized in profit or loss, except in the case of differences arising from the reconversion of capital instruments available for sale, a financial liability designated as a hedge of the net investment in an operation abroad, or qualified cash flow hedges, which are recognized directly in the consolidated statement of profit or loss.

Functional currency and presentation

Records are carried in Balboas and the consolidated financial statements are expressed in this currency. The Balboa, the monetary unit of the Republic of Panama, is at par and freely exchangeable with the United States dollar. The Republic of Panama does not issue paper money and instead uses the American dollar as legal tender.

3.5 Segment reporting

A business segment is a component of the Bank, whose operating results are regularly reviewed by the Bank's management for making decisions about resources to be allocated to the segment and to evaluate its performance, and for which financial information is available for this purpose.

3.6 Financial assets

Debt instruments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal (SPPI), are later measured at amortized cost. Debt instruments held in a business model, whose objective is both to collect the contractual cash flows as well as to sell financial assets and that have contractual cash flows that are SPPI, are measured at fair value through other comprehensive income (FVTOCI). All other debt instruments (for example, those managed on a fair value basis, or held for sale) and capital investments are subsequently measured at fair value through profit and loss (FVTPL).

However, the following irrevocable choice or designation may be made in the initial recognition of a financial asset on an asset-by-asset basis:

- It is possible to irrevocably choose to present subsequent changes in the fair value of a capital investment that is not held for trading, nor a contingent consideration recognized by an acquirer in a business combination to which IFRS 3 is applied - *"Business Combinations"*, in other comprehensive income; and
- A debt instrument that meets the amortized cost or the FVOCI criteria measured at FVTPL can be irrevocably designated if doing so eliminates or significantly reduces causing an accounting asymmetry.

3.6.1 Classification

The Bank classifies its financial assets according to its subsequent measurement at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss, based on the Bank's business model for asset management of financial assets and contractual cash flow characteristics of financial assets.

The Bank classifies all financial liabilities according to their subsequent measurement at amortized cost, except for those liabilities measured through profit or loss, as a result of hedge accounting, as well as liabilities measured at fair value corresponding to non-designated derivatives.

3.6.2 Evaluation of the business model

The Bank carries out an evaluation of the objective of the business model in which the financial asset is held at the portfolio level, as it reflects the way in which the business is managed, and information is provided to Management. The information considers the following:

- The Bank's policies and objectives for the portfolio and the operation of these policies in practice. In particular, if the Management strategy is focused on obtaining income from contractual interests, maintaining a particular interest rate profile, adapting the duration of the financial assets to the duration of the liabilities that finance those assets or making cash flows to through the sale of assets;
- How the portfolio performance is evaluated and informed to the Bank's Management;
- The risk that affects the performance of the business model and how these risks are managed;
- The frequency, volume and schedule of sales in previous years, the reason for such sales and their expectations about future sales activity. However, information on sales activity is not considered in isolation, but as part of a general assessment of how the Bank's stated objective for managing financial assets is achieved and how cash flows are realized.

An evaluation of business models to manage financial assets is essential for the classification of a financial asset. The Bank determines the business model at a level that reflects how financial asset groups are managed together to achieve a particular business objective. The business model does not depend on Management's intentions for an individual instrument; therefore, the evaluation of the business model is carried out at a higher level of aggregation rather than instrument by instrument.

In the initial recognition of a financial asset, it is determined whether the newly recognized financial assets are part of an existing business model or if they reflect the beginning of a new business model. The Bank reassesses its business model in each reporting period to determine if business models have changed since the previous period. For the current and previous reporting period, the Bank has not identified a change in its business model.

3.6.3 Evaluation on contractual cash flows if they are only capital and interest payments

For the purposes of this evaluation, “principal” means the fair value of the financial asset at the time of initial recognition. “Interest” is defined as the consideration for the value of money over time and for the credit risk associated with the outstanding capital for a certain period of time and for other basic risks and costs of the loan, as well as the profit margin.

The contractual cash flows that are SPPI are consistent with a basic loan agreement. Contractual terms that introduce exposure to risks or volatility in contractual cash flows that are not related to a basic loan agreement, such as exposure to changes in stock prices or commodity prices, do not give rise to contractual cash flows that are SPPI. A financial asset originated or acquired may be a standard credit agreement regardless of whether it is a loan in its legal form.

In assessing whether contractual cash flows are only payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the schedule or amount of contractual cash flows so that it does not meet this condition. When conducting the evaluation, the Bank considers the following:

- Contingent events that would change the amount and schedule of cash flows;
- Leverage characteristics;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to the cash flows of specified assets (for example, agreements with assets without recourse); and characteristics that modify the consideration of the value of money over time (for example, periodic readjustment of interest rates).

3.6.4 Financial assets at fair value through other comprehensive income (FVOCI)

These securities are made up of non-classified debt instruments such as securities at FVTPL or at amortized cost securities and are subject to the same approval criteria as the rest of the loan portfolio. These securities are accounted for at fair value if the following two conditions are met:

- The financial asset is maintained in accordance with a business model whose objective is achieved through the collection of contractual cash flows and the sale of financial assets; and,
- The contractual conditions of the financial assets give rise to cash flows on specified dates that are only payments of principal and interest on the outstanding principal.

Unrealized gains and losses are reported as net increases or decreases in other comprehensive income ("OCI") in the consolidated statement of changes in shareholders' equity until they are realized. Gains and losses made from the sale of securities that are included in the net gain on the sale of securities are determined using the specific identification method.

For an equity instrument designated as measured at FVOCI, the accumulated gain or loss previously recognized in other comprehensive income is not subsequently reclassified to gains and losses, but may be transferred within the equity.

3.6.5 Financial assets at amortized cost

Financial assets at amortized cost represent securities and loans whose objective is to maintain them in order to obtain contractual cash flows during the life of the instrument. These securities and loans are valued at amortized cost if the following two conditions apply:

- The financial asset remains within the business model whose objective is to maintain the financial assets so as to obtain the contractual cash flows, and

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

3.6.6 Financial assets and liabilities at fair value through profit or loss (FVTPL)

Financial assets and liabilities at fair value through profit and loss include a) assets and liabilities with contractual cash flows that are not SPPI; and/or b) assets and liabilities designated in FVTPL using the fair value option; and accounts receivable (unrealized gains) and accounts payable (unrealized losses) related to derivative financial instruments that are not designated as hedging or that do not qualify for hedge accounting.

Unrealized gains and losses made on assets and liabilities for trading are recorded in the consolidated statement of profit or loss as profit (loss) of financial instruments at fair value through profit or loss.

3.6.7 Reclassification

If the business model, under which the Bank maintains financial assets changes, the affected financial assets are reclassified. The classification and measurement requirements related to the new category are applied prospectively from the first day of the first reporting period following the change in the business model resulting in the reclassification of the Bank's financial assets.

On November 26, 2019, the Bank notified the Superintendency of Banks of Panama of its decision to reclassify the securities portfolio at amortized cost to the category of securities at fair value with changes in other comprehensive income, as a result of a change in the Bank's business model. The carrying value of the reclassification was B/.213,816,270. As a result of the reclassification, an unrealized gain recorded in other comprehensive income of B/.7,952,846 was recognized.

Changes in contractual cash flows are considered under the accounting policy of modification and derecognition of financial assets and liabilities described below.

3.6.8 Write-offs

A financial asset (or, where appropriate, a part of a financial asset or a part of a group of similar financial assets) is written off when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive the cash flows of the asset and has either substantially transferred all the risks and benefits of the asset, or has transferred or substantially retained the risks and benefits of the asset, but control has been transferred of the asset.
- The Bank reserves the right to receive the cash flows of the asset, but has assumed an obligation to pay the cash flows received in full and without significant delay to a third party under a “pass-through agreement”.
- When the Bank has transferred its rights to receive cash flows from an asset or has entered into a transfer agreement, and neither has substantially transferred or retained all the risks and benefits of the asset, nor transferred control of the asset, the asset is recognized to the extent that the Bank's participation in the asset continues. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the contractual rights and obligations that the Bank has retained.

The continued participation that takes the form of a guarantee on the transferred asset is measured by the lower amount between the original carrying value of the asset and the maximum amount of the consideration that the Bank could be required to pay.

The Bank carries out operations through which it transfers recognized assets in its consolidated statement of financial position, but retains all or substantially all the risks and rewards of the transferred asset or part thereof. In such cases, the transferred assets are not written-off. Examples of these transactions are securities loans and sale and repurchase transactions.

3.6.9 *Impairment of financial statements*

Measuring the provision for expected credit losses for financial assets measured at amortized cost and at fair value through other comprehensive income requires the use of complex models and significant assumptions about future economic conditions and credit behavior. Several significant judgments are also required when applying accounting requirements to measure expected losses, such as:

- Determine the criteria for a significant increase in credit risk.
- Choice of appropriate models and assumptions for measuring the expected loss.
- Incorporate future scenarios of macroeconomic conditions for each type of product / market and the associated expected loss, and
- Establish groups of similar financial assets in order to measure the expected loss.

Critical judgments are described in Note 5.

The Bank recognizes provision for losses due to ECLs in the following financial instruments that are not measured at FVTPL:

- Loans at amortized cost
- Investment debt securities;
- Accounts receivable from leases;
- Loan commitments issued; and
- Financial guarantee contracts issued.

No impairment loss is recognized in equity investments.

With the exception of financial assets, ECLs are required to be measured for those impaired financial assets that are acquired through a loss provision at an amount equal to:

- ECL during the lifetime that results from events of default in the financial instrument that are possible within 12 months after the filing date of the report, (referred to as Stage 1); or

- ECL during the lifetime that result from all possible events of default during the life of the financial instrument, (referred to as Stage 2 and Stage 3).

The provision for loss by all ECLs during the lifetime is required for a financial instrument if the credit risk in that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the ECL of 12-months.

These are measures such as the present value of the difference between the cash flows due to the Bank under the contract and cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted to the EIR of the asset.

- For the signed loan commitments, ECLs are the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment takes the loan and the cash flows that the Bank expects to receive if the loan is taken.
- For financial guarantee contracts, ECLs are the difference between the expected payments to reimburse the secured debt instrument holder less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECLs on an individual basis, or on a collective basis for loan portfolios that compare similar economic risk characteristics. The measurement of the provision for loss is based on the present value of the expected cash flows of the asset, using the original EIR of the asset, regardless of whether it is measured on an individual basis or a collective basis.

*3.6.9.*1 Impaired financial assets

A financial asset is ‘credit-impaired’ when one or more events have occurred that have a detrimental effect on the estimated future cash flows of the financial asset. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data of the following events:

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- For economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider is granted to the borrower.
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase of a financial asset with a huge discount reflecting the incurred credit losses.

It may not be possible to identify a single discrete event; instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or at VROCI are credit-impaired on each reporting date. To assess whether sovereign and corporate debt instruments have credit-impaired, the Bank considers factors such as bond yields, credit ratings and the borrower's ability to obtain funds.

A loan is considered credit-impaired when a concession is granted to the borrower due to an impairment in the borrower's financial condition, unless there is evidence that as a result of the granting of the concession, the risk of not receiving contractual cash flows has been significantly reduced and there are no other indicators. For financial assets where concessions are contemplated, but have not been granted, the asset is considered credit-impaired when there is observable evidence of credit impairment, including meeting the definition of default. The definition of default (see below) includes the improbability of payment indicators and interruption of support if the amounts are 90 or more days past due.

*3.6.9.*2 Definition of default

The Bank considers that a financial asset is in default when it has any of the following characteristics:

- The debtor is overdue for more than 90 days in any of his obligations to the Bank, either in the principal of the loan or interest; or when the principal balance with a single payment at maturity is pending payment for more than 30 days;
- Impairment in the client's financial situation, or the existence of other factors to estimate the possibility that the principal balance and interest on the client loans will not be fully recovered. Clients classified in high-risk category when the behavior score and credit rating model meet this criterion.
- However, there is a rebuttable presumption that the credit risk of these overdue loans has increased significantly since the initial recognition, if the Bank has reasonable and sustainable information that is available without disproportionate cost or effort, demonstrating that the credit risk has not increased significantly since its initial recognition even though the contractual payments are more than 30 or 90 days past due.

In assessing whether a borrower is in default, the Bank considers qualitative and quantitative indicators based on data developed internally and obtained from external sources. Inputs in the evaluation of whether a financial instrument is in default and its importance may vary over time to reflect changes in circumstances.

*3.6.9.*3 Significant increase in credit risk

In order to determine whether there has been a significant increase in the credit risk of the financial instrument, the evaluation is based on quantitative information and qualitative information. The Bank considers the following factors, although not exhaustive, in measuring the significant increase in credit risk:

- Assets with a default height of more than 30 days.
- Assets restructured by risks, where the client is experiencing financial difficulties, other than liquidity problems considered to be temporary, and until it is proven that his credit risk has improved.
- Customers with a significant increase in risk measured by the performance score for the consumer portfolio and the credit rating for the corporate portfolio, as detailed below, produced by:
    - A real or expected significant change in the borrower's operating results;
    - A significant expected or actual adverse change in the borrower's regulatory, economic or technological environment;
    - Significant changes in the value of the collateral guarantee that supports the obligation;

- Significant changes, such as reductions in the financial support of a controlling entity or other subsidiary or a significant actual or expected change in the quality of the credit improvement, among other factors incorporated in the Bank's expected credit loss model.
- Adverse changes existing or foreseen in the business, and financial or economic conditions;

- Significant changes in the external credit risk market indicators for a specific financial instrument or similar financial instruments with the same expected life;
- A significant real or expected change in the external credit rating of the financial instrument.

In determining whether there is a significant increase in risk, apply the following models:

- For the consumer portfolio, risk is measured through a behavior scoring model in which historical credit risk behavior variables are aligned on each product based on weighting for each variable until a credit risk score is obtained.
- With respect to the corporate portfolio and other loans, the Bank maintains a system of internal credit quality indicators. These indicators are assigned based on several factors that include: profitability, asset quality, liquidity and cash flows, capitalization and indebtedness, economic environment and positioning, regulatory and/or industry framework, sensitivity scenarios and quality of the management and the shareholders of the borrower.

Through the evaluation of the credit rating on each reporting date, the Bank evaluates whether there is a significant increase in credit risk based on the change in the risk of default that occurs during the expected life of the credit instrument. In order to carry out the evaluation of whether there has been a significant impairment of credit, the Bank considers reasonable and sustainable information that is available without cost or disproportionate effort:

- The risk of default that occurs in the financial instrument on the reporting date, and
- The risk of default that occurs in the financial instrument on the date of its initial recognition.

The Bank incorporates information on the future economic environment in its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition through its forward looking model, complemented with other Management analyses, which take into consideration the projection of macroeconomic variables that attempt to predict the unemployment rate and the rate of past due loans, which is the basis for the expected loss adjustments.

For credit commitments, the Bank considers changes in the risk of default that occurs in the “potential” loan referred to in the credit commitment, and for financial guarantee contracts, changes are taken into account in the risk that the specific debtor defaults.

*3.6.9.*4 Modified or renegotiated loans

A modified or renegotiated loan is a loan whose borrower is experiencing financial difficulties, other than liquidity problems considered to be temporary, and renegotiation constitutes a concession to the borrower. A concession may include the modification of terms such as an extension of the maturity term, the reduction in the established interest rate, the rescheduling of future cash flows, and the reduction of the nominal amount of the loan or the reduction of interest accrued, among others.

When a financial asset is modified, the Bank verifies if this modification results in derecognition. According to Bank policies, the modification results in derecognition when it gives rise to significantly different terms. To determine whether the modified terms are significantly different from the original contractual terms, the Bank considers the following:

- Qualitative factors, such as contractual cash flows after the modification are no longer SPPI, currency exchange or counterparty change, the extension of the change in interest rate, maturity, and payment agreements. If they do not clearly identify an important modification, then;
- A quantitative valuation is performed to compare the present value of the remaining contractual cash flows according to the original terms with the contractual cash flows, according to the revised terms, with both amounts discounted at the original effective interest.

When the contractual terms of a financial asset are modified and the modification does not result from a derecognition, the Bank determines whether the credit risk of the financial asset has increased significantly as of the initial recognition and doing so by comparing:

- The estimated probability of default during the remaining lifetime, based on data on the initial recognition and original contractual terms; with
- The probability of default with the remaining lifetime as of the filing date of the report, based on the modified terms.

In the modification or renegotiation of the contractual cash flows of the loan, the Bank shall:

- Continue with the current treatment for the existing loan that has been modified.
- Recognize a gain or loss on the modification by calculating the gross carrying value of the financial asset as the current value of the renegotiated or modified contractual cash flows, discounted at the original effective interest rate of the loan.
- Evaluate if there has been a significant increase in the credit risk of the financial instrument, comparing the risk of default that occurs on the filing date (based on the modified contractual terms) and the risk of default that occurs in recognition initial (based on the original unmodified contractual terms). The loan that is modified is not automatically considered to have a lower credit risk. The evaluation should consider credit risk through the expected life of the asset based on historical information and prospective vision, including information on the circumstances that led to the modification. The evidence, that the criteria for the recognition of the expected credit losses for the life of the instrument are no longer met, may include a history to date and timely payment in subsequent years. A minimum period of observation will be necessary before a financial asset can qualify to return to an expected credit loss measurement of 12 months.
- Make the adequate quantitative and qualitative disclosures required for renegotiated or modified loans to reflect the nature and effect of such modifications (including the effect on the measurement of expected credit losses) and how the Bank monitors these modified loans.

3.6.9.5 Write-offs

Loans are charged to losses when it is determined that they are unrecoverable for a period not exceeding one year. This determination is made after considering a number of factors such as: the debtor's inability to pay, when the collateral is insufficient or is not properly constituted; or it is established that all resources made to manage the collection for the recovery of the credit were exhausted.

3.6.9.6 Presentation of the provision for ECL in the consolidated statement of financial position

The ECL loss provision is presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying value of the assets;
- For debt instruments measured to FVTOCI: no provision for loss is recognized in the consolidated statement of financial position given that the carrying value is at fair value. However, the provision for loss is included as part of the revaluation amount in the reserve for investment revaluation;
- For loan commitments and financial guarantee contracts: as a provision; and
- When a financial instrument includes both a subscription component and a non-subscription component, the Bank cannot identify ECLs in the loan commitment component separately from the subscription component: The Bank presents a combined loss provision for both components. The combined amount is presented as a deduction from the gross carrying value of the subscription component.

3.6.9.7 Loans at amortized cost

The Bank measures the expected credit losses in a manner that reflects: a) an unbalanced weighted probability amount that is determined by evaluating a range of possible outcomes; b) the value of money over time; and c) reasonable and sustainable information that is available without disproportionate cost or effort on the presentation date about past events, current conditions and the forecast of future economic conditions.

The Bank's loan policy applies to all types of loans.

The reserve for credit losses is established to cover the losses derived from the credit granting process, inherent in the loan portfolio and credit commitments and financial guarantee contracts, using the reserve method for expected credit losses. Increases to the reserve for expected credit losses are made with a charge to profits. Expected credit losses are deducted from the reserve, and subsequent recoveries are added. The reserve is also reduced by reversals of the reserve with credit to profit or loss. The reserve attributable to loans at amortized cost is presented as a deduction to loans and the reserve for expected credit losses for credit commitments and financial guarantee contracts, such as letters of credit and guarantees, is presented as a liability.

The Bank measures the expected credit losses in a manner that reflects: a) an unbalanced weighted probability amount that is determined by evaluating a range of possible outcomes; b) the value of money over time; and c) reasonable and sustainable information that is available without disproportionate cost or effort on the presentation date about past events, current conditions and the forecast of future economic conditions.

The expected credit loss model reflects the general pattern of impairment or improvement in the credit quality of the loans. The amount of expected credit losses recognized as a reserve or provision depends on the degree of credit impairment since initial recognition. There are two assessment criteria:

- 12 months of expected credit losses (Stage 1), which applies to all loans (initial recognition), provided there is no significant deterioration in credit quality, and
- Expected credit losses during the lifetime (Stages 2 and 3), which is applied when there has been a significant increase in credit risk individually or collectively. In these Stages 2 and 3, interest income is recognized. In Stage 2 (as in Stage 1), there is a total dissociation between the recognition of interest and impairment and interest income is calculated on the gross carrying value. In Stage 3, when a loan is subsequently converted into impaired credit (where a credit event has occurred), interest income is calculated on the amortized cost (the gross carrying value after deducting the impairment reserve). In subsequent years, if the credit quality of the financial assets improves and the improvement can be objectively related to the occurrence of an event (such as an improvement in the borrower's credit rating), then the Bank must once again perform the calculation of Interest income.

The provision for expected credit losses includes a specific active component and a formula-based component. The specific active component, or of the specific allocation, refers to the provision for losses in credits considered impaired and individually assessed, on a case-by-case basis. A specific provision is established when the discounted cash flows (or observable fair value of the guarantee) of the credit is less than the carrying value of that credit. The component based on the formula (tax base of the collective), covers the normal credit portfolio of the Bank and is established based on a process that estimates the probable loss inherent in the portfolio, based on statistical analysis and qualitative management judgment. This analysis should take into account the complete information that incorporates not only default data, but other relevant credit information, such as prospective macroeconomic information.

The Bank determines the expected loss using two methodologies to determine whether there is objective evidence of impairment:

- *Individually assessed loans* - Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case by case basis. This procedure applies to all loans that are individually significant or not. If it is determined that there is no objective evidence of impairment for an individual loan, this loan is included in a group of loans with similar characteristics and are collectively evaluated to determine whether impairment exists.

  The impairment loss is calculated by comparing the present value of expected future cash flows, discounted at the loan's original effective interest loan, with its current carrying value and the amount of any loss is charged as a reserve for losses in the consolidated statement of profit or loss. The carrying amount of impaired loans is reduced using a reserve account.

- *Collectively assessed loans* - For purposes of a collective evaluation of impairment, loans are grouped according to similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets indicating the ability of borrowers' payment of amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans, which are collectively evaluated to determine whether impairment exists, are estimated according to contractual cash flows of the assets in the group, the historical loss experience for assets with credit risk characteristics similar to the group credit and experienced Management opinions on whether the current economy and credit conditions can change the actual level of historical inherent losses suggested.

3.7 Financial liabilities and issued equity instruments

Client deposits

These instruments are the result of the resources that the Bank receives and these are initially measured at fair value, net of transaction costs. Subsequently, they are measured at amortized cost using the effective interest rate method.

Classification as debt or equity

Debt and equity instruments are classified as financial liabilities or as equity in accordance with the contractual arrangements.

Perpetual bonds with mandatory interest payment are classified as financial liabilities.

Equity instruments

An equity instrument is any contract that evidences a residual interest on the assets of an entity after deducting all its liabilities. Equity instruments issued are recorded at the amount received, net of direct issuance costs.

Preferred shares for which there is no contractual maturity and for which the distribution to the holders of the shares is at the discretion of the Bank (“The Issuer”) are classified as an equity instrument.

Liabilities from financial guarantee contracts

Contracts that an entity is in the obligation to pay specific amounts on behalf of a third party in case of default, regardless of how this obligation is implemented: either by bond, financial or technical guarantee, documented irrevocably credit issued or confirmed by the entity, insurance and credit derivative.

Financial guarantees, regardless of its owner, instrumentation and other circumstances, are regularly analyzed to determine the credit risk they are exposed to and, if necessary, to estimate the needs of an allowance for them. This is determined by applying similar criteria to those established for quantifying impairment losses experienced by debt instruments measured at their amortized cost as detailed in the note of impairment of financial assets.

Financial guarantees are initially recognized in the consolidated financial statements at fair value at the date on which the guarantee was issued. After initial recognition, bank liabilities under such guarantees are measured at the higher of the initial recognition, less amortization calculated for recognition in the consolidated statement of profit or loss from fees earned on a straight-line basis on the life of the guarantee, and best estimate of disbursement required to settle any financial obligation arising as of the date of the consolidated statement of financial position. These estimates are determined based on the experience of similar transactions and history of past losses, supplemented by Management’s judgment.

Financings

Financings are recognized initially at fair value net of transaction costs incurred. Subsequently, financings are recognized at amortized cost; any difference between the net proceeds of the transaction costs and the redemption value is recognized in the consolidated statement of profit or loss during the borrowing period using the effective interest method. Those financings whose interest rate risk is hedged by a derivative are presented at fair value.

Securities sold under repurchase agreements

Securities sold under repurchase agreements are generally accounted for as financing transactions received with guarantees and are recorded at the amount by which the securities were sold plus accrued interest.

The Bank assesses the market value of the securities sold and releases the guarantees to the counterparties when appropriate.

Other financial liabilities

Other financial liabilities, including debts, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method with interest expenses recognized on the effective rate base. Those whose market risks have a fair value hedge, the gain or loss attributable to the hedged risk adjusts the carrying amount of the hedged item and be recognized in the consolidated statement of profit or loss.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are liquidated, cancelled or expired.

Dividends

Dividends on common shares are recognized in equity in the year in which the Board of Directors approved them.

3.8 Compensation of financial instruments

Financial assets and liabilities are offset, that is, when the net amount is presented in the consolidated statement of financial position only when the dependent entities have the right, legally enforced, to offset the recognized amounts of such instruments, as well as the intention to liquidate the net amount, or to realize the asset and pay the liability simultaneously.

3.9 Interest income and expenses

Interest income and expenses are recognized in the consolidated statement of profit or loss for all financial instruments that generate interest using the effective interest method. The method of effective interest rate is the method used to calculate the amortized cost of an asset or financial liability and to distribute the income or interest expense over a period of time. The effective interest rate is the rate that exactly discounts the estimated cash flows over the expected life of a financial instrument or, when appropriate in a shorter period, to its net carrying amount. When calculating the effective interest rate, cash flows are estimated considering the contractual terms of the financial instrument, but future losses due to credit are not considered.

3.10 Commission income

Generally, commissions on short-term loans, letters of credit and other banking services are recognized as income at the time of its collection due to being short-term transactions. The revenue recognized at the time of its collection is not significantly different from that recognized under the cumulative or accrual method. Commissions on loans and other medium and long-term transactions, net of certain direct costs from granting them, are deferred and amortized over their terms.

3.11 Securities purchased under resale agreements

Securities purchased under resale agreements ("repos") are short-term transactions guaranteed with securities, in which the Bank takes possession of the securities at a discounted market value and agrees to resell them to the debtor at a future date and at determined price. The difference between acquisition and selling value is recognized as income under the effective interest rate method.

Securities received as collateral are not recognized in the financial statement unless a default is given by the counterparty of the contract, which would entitle the Bank to take possession of the securities.

The market prices of the underlying securities are monitored and in case of a significant decline and not temporary in the value of a specific security, the Bank could obtain more guarantees, as appropriate.

3.12 Financial leases receivable

Financial leases consist mainly of leases of vehicles, machinery and equipment, whose contracts have a maturity period between thirty-six (36) to sixty (60) months.

The leasing contracts of leases receivable are recorded under the financial method which are classified as part of the loan portfolio, the Bank's net investment in leasing. The difference between the financial lease receivable and the Bank's net investment in the lease is recorded as unearned interest and is amortized to the revenue account during the term of the lease, under the interest method.

3.13 Operating leases

3.13.1 Policy applicable before July 1, 2019

In operating leases, the ownership of the leased asset and substantially all the risks and rewards relating to the leased assets remain with the lessor. When acting as lessee, lease expenses, including any incentives granted where appropriate by the lessor are linearly charged to the consolidated statement of profit or loss.

3.13.2 Policy applicable after July 1, 2019

The Bank assesses whether a contract is or contains a lease, at the beginning of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a term of 12 months or less) and active low-value leases (such as tablets and personal computers, small office furniture items and telephones). For these leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefit of the leased goods is consumed.

The lease liability is initially measured at the present value of the lease payments due at the inception date, discounted using the implicit rate in the lease. If this rate cannot be readily determined, the lessee uses its incremental interest rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including fixed payments in substance), less any lease incentive receivables;
- Variable lease payments that are dependent on an index or rate, initially measured using the index or rate at the inception date;
- The amount the lessee expects to pay under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Penalty payments for terminating the lease, if the lease term reflects the exercise of a termination option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- The term of the lease has changed or there is a significant event or change in circumstances that results in a change in assessment of the exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payment using a revised discount rate.
- Lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payment using an unchanged discount rate (unless the change in lease payments is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease is amended and the lease amendment is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the amended lease by discounting the revised lease payments using a revised discount rate at the effective date of the amendment.

The Bank did not make such adjustments during the periods presented.

Rights-of-use assets comprise the initial measurement of the related lease liability, lease payments made on or before the inception date, less lease incentives received and initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for the costs of dismantling and removing a leased asset, restoring the site where the asset is located, or restoring the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured in accordance with IAS 37. To the extent that costs relate to an active right of use, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventory.

Rights-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the life of the underlying asset. Depreciation begins on the start date of the lease. The right-of-use asset is presented as a separate line in the consolidated statement of financial position.

Variable rents that are not dependent on an index or rate are not included in the measurement of the lease liability and right-of-use asset. Related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the item line "Other expenses" in the consolidated statement of profit or loss.

3.14 Property, plant, equipment and improvements

Property, plant, equipment and improvements are stated at cost, net of accumulated depreciation and amortization. Major improvements are capitalized, while other minor repairs and maintenance, which do not increase its useful life or improve the assets, are charged to expenses as incurred.

Depreciation and amortization are charged to current operations under the straight-line method, based on the estimated useful lives of the assets:

Property	40 - 50 years
Plant and office equipment	5 - 10 years
Computer equipment	3 - 10 years
Vehicles	3 - 5 years
Leasehold improvements	15 years

Assets that are subject to amortization are reviewed for impairment whenever changes in the circumstances indicate that carrying values are not recoverable. The carrying value of fixed assets is immediately written down to its recoverable amount, which is the higher between the fair value less cost and the value in use.

An item of property, plants, equipment and improvements are written off to their eventual disposal or when no future economic benefits are expected to arise from the continuing use of the asset. Any gain or loss arising on the disposal or discard of an item of property, furniture, equipment and improvements are determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statement of profit or loss.

3.15 Foreclosed assets for sale

Foreclosed assets for sale are recorded at the lower between the book value of outstanding loans and their estimated market value less the costs of sale.

3.16 Goodwill and intangible assets

At the time of an acquisition of a significant portion of the assets of another company or of an asset or business, goodwill represents the cost of acquisition over the fair value of the net assets acquired. Goodwill is recognized as an asset in the consolidated statement of financial position and an impairment test is made annually.

For the purposes of impairment testing, goodwill is allocated to each of the Bank's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. The Bank annually tests for impairment the Cash Generating Unit (“CGU” or “Unit”) to which goodwill was allocated and to intangible assets with indefinite useful lives and whenever there is an indication that an asset may be impaired, in accordance with the reserve of IAS 36. If the recoverable amount of the cash-generating units is less than the carrying amount of the unit, the impairment loss is allocated first to decrease the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying value of each asset in the unit. Impairment losses recognized on goodwill are not reversed in subsequent periods

The other intangible assets acquired by the Bank are recognized at cost less accumulated amortization and impairment losses and are amortized up to 20 years under the straight-line method over the estimated useful life. Intangible assets are subject to evaluation or changes in circumstances indicating that the carrying value may not be recoverable.

3.17 Impairment of non-financial assets other than goodwill

On the date of each consolidated statement of financial position, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have been an impaired loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In case the asset does not generate cash flows for itself, that be independent from other assets, the Bank calculates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives are tested for impairment annually.

The recoverable amount is the higher of fair value less costs of sale and value in use. In assessing value in use, the estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the specific risks of the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is written down to its recoverable amount. An impairment loss is immediately recognized as expenses.

When an impairment loss subsequently is reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately as income.

As of June 30, 2020, Management had not identified impairment loss of its non-financial assets.

3.18 Employee benefits

Severance fund

Panamanian labor law requires that employers constituted a severance fund to guarantee the payment of seniority premiums and indemnity to employees in cases of unjustified dismissals or upon resignation. For the establishment of this fund, employers have to contribute the fund based on 1.92% of total salaries paid in the Republic of Panama and 5% of the monthly quota part of the indemnity. Payments should be founded on a quarterly basis in a trust. Such contributions are recognized as other assets in the consolidated statement of financial position.

Retirement plan

Retirement benefits are recognized as expenses for the amount that the Bank is committed under the subscribed retirement plan.

On December 13, 2013, retirement plan No.1 was approved and began on March 1, 2014 for executives, who have a minimum of one year in the executive position. The executive can participate voluntarily. The Bank´s contribution is equivalent to 1% to 3% of monthly salary of participating executives based on their respective contribution.

These funds are administered through an external fund´s manager, as required by Law No.1 dated January 5, 1984 amended by the Executive Decrees No.16 of October 3, 1984 and No.53 of December 30, 1985.

3.19 Share-based payments

The Board of Directors of G.B. Group, the holding company owning 100% of the shares of Global Bank Corporation and Subsidiaries, approved a stock option plan to purchase shares of G.B. Group in favor of the key executives of any G.B. Group subsidiaries.

The fair value of options granted is measured by the fair value of the equity instruments at the grant date, if it can be reliably estimated. Otherwise, the equity instruments are measured by their intrinsic value, and subsequently, at each reporting date and at the date of final settlement, recognizing the changes in intrinsic value in profit or loss.

In a concession of share options, the share-based payment arrangement will be finally settled when the options are exercised, forfeited (e.g., for retirement) or expired (e.g., at the end of the option period).

3.20 Income tax

Income taxes include the current year tax and deferred tax. Income tax is recognized in the results of operations of the current year. The current income tax refers to the estimated income tax payable over taxable income of the fiscal year, using the applicable rate at the date of the consolidated statement of financial position.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Complementary dividend tax

The complementary tax corresponding to a portion of tax on dividends prepaid in advance on behalf of the shareholders, which is deducted when dividends are paid to shareholders.

3.21 Insurance operations

Unearned premiums and the reinsurers' participation on unearned premiums are calculated using the monthly pro rata method.

Accident claims pending settlement of estimates consist of all claims incurred but not paid at the date of the consolidated statement of financial position, whether they are reported or not and related internal and external expenses of claims management.

Fees paid to brokers and taxes paid on premiums are deferred in the consolidated statement of financial position as deferred acquisition costs according to their relationship with unearned premiums net of the reinsurers' participation.

Collective life insurance premiums received for periods longer than one year are deferred as a liability in the consolidated statement of financial position according to their maturity dates. The portion corresponding to the current year is carried to revenue as premiums issued on the anniversary dates and the other premiums related to future effective years, will remain in the consolidated statement of financial position as deferred liabilities.

3.22 Trust operations

Assets held in trust or in a fiduciary function are not considered part of the Bank and, therefore, such assets and related income are not included in these consolidated financial statements. The commission income from trusts' management is recorded based on the accrual method in the consolidated statement of profit or loss.

3.23 Hedge derivatives

The Bank records its derivative financial instruments in the consolidated statement of financial position at fair value on the date on which the derivative contract starts, and subsequently when revalued to fair value at each reporting date under the fair value method or cash flows when hedge accounting is used, or as instruments for trading when the derivative does not qualify for hedge accounting. The fair value is presented in the consolidated statement of financial position within other assets or other liabilities, as appropriate.

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as:

- Hedges of fair value of recognized assets or liabilities or firm commitments (fair value hedges).

At the beginning of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item. Later, at the date of inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument is highly effective to offset the changes in cash flows of the hedged item attributable to the hedged risk.

Fair value hedge

Derivative instruments under the fair value method are hedges of the exposure to changes in fair value of: (a) a portion or all of an asset or liability recognized in the consolidated statement of financial position, (b) a firm commitment or transaction likely to occur. Changes in the valuation of hedging under the fair value method are recorded in the consolidated statement of profit or loss.

If the asset or liability is carried at amortized cost, the carrying value must be adjusted to reflect the changes in fair value as a result of movements in interest rates. These hedged assets and liabilities are recorded at amortized cost as soon as the hedging relationship is ended using the effective yield rate adjusted for the amortization calculation. If the hedged asset is carried at amortized cost is impaired, the loss is calculated based on the difference between the book value, after adjusting for changes in the fair value of the hedged asset, resulting from the hedged risk and the present value of estimated cash flows discounted at an adjusted effective yield basis.

Derivative instruments that are not related to a hedging strategy are classified as assets or liabilities at fair value and recorded in the consolidated statement of financial position at fair value. The changes in the valuation of these derivative instruments are recognized in the consolidated statement of profit or loss.

The Bank discontinues the hedge accounting when is determined that the hedging instrument is no longer highly effective to compensate the changes in the fair value or the cash flows of the hedge item; the hedging instruments expire or are sold or executed; the asset or liability hedged expires or is sold or executed; the derivative is not designated as hedging instrument because the forecasted transaction is no longer expected to occurs or Management determines that the derivative designation as hedging instrument is no longer appropriate.

The fair values of derivatives used for hedging purposes are described in Note 20.

3.24 Cash equivalents

For purposes of the consolidated statement of cash flows, the Bank considers as cash and cash equivalents, cash and demand deposits and time deposits in unrestricted Banks and/or with original maturities of 90 days or less.

4. Financial risk management

4.1 Objectives of financial risk management

The Bank's activities are exposed to multiple financial risks and these activities include the analysis, evaluation, acceptance, and management of certain degree of risk or combination of risks. Taking risks is central to the financial business, and the operational risks are an inevitable consequence of being in business. Therefore, the objective of the Bank is to achieve an appropriate balance between risk and return and minimize the potential adverse effects on the Bank's financial profit.

The activities of the Bank are mainly related with the use of financial instruments, and, as such, the consolidated statement of financial position is mainly composed of financial instruments. The Bank is therefore exposed to the following risks:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

The Board of Directors of the Bank has the responsibility to establish and overlook the policies of financial instruments risk management. In that effect, it has appointed committees in charge of the periodic management and overlook of the risks to which the Bank is exposed. The committees are the following:

- Audit Committee, under the leadership of the Board of Directors;
- Risk Committee
- Credit Committee
- Assets and Liabilities Committee (ALCO)
- Investment Committee
- Compliance Committee
- Operational Committee

In addition, the Bank is subject to the regulations of the Superintendency of the Securities Market of Panama and the Superintendency of Banks of Panama, in relation to concentration risks, liquidity and capitalization risk among others The Superintendency of Banks of Panama regulates the operations of Global Bank Corporation.

The main risks identified by the Bank are credit, liquidity and market risks, which are described below:

4.2 Credit and counterparty risk

Credit risk is the risk of a financial loss for the Bank that may take place if a client or a counterparty of a financial instrument fails to meet their contractual obligations arising mainly on loans to clients and investment in equity securities.

For purposes of risk management, the Bank considers and consolidates all the elements of exposure of credit risk, debtor risk, country risk, and segment or industry risk. The credit risk that originates in maintaining securities is managed independently, but informed as a component of credit risk exposure.

The respective committees appointed by the Board of Directors periodically monitor the financial condition of the debtors and issuers of negotiable instruments that involve a credit risk for the Bank.

The Bank has established certain procedures to manage credit risk summarized as follows:

Issuance of Credit Policies:

Credit policies are issued and revised by recommendation of any member of the Credit Committee or by the Vice-Presidents or Managers of Credit Banking, as well as by the control areas, who must suggest by written considering the following factors:

- Changes in market conditions.
- Risk factors.
- Changes in laws and regulations.
- Changes in financial conditions and credit availability.
- Other factors relevant at the moment.

All changes in policies or the Issue of new policies must be approved by the Credit Committee, who in turn submits them to the Board of Directors for approval, issuing a memorandum of instructions for subsequent disclosure and implementation.

Establishment of Authorization Limits:

The limits for approval of credits depend on the significance of each amount related to the equity of the Bank. These limit levels are presented to the Credit Committee, who in turn submits them for the approval of the Board of Directors.

Exposure Limits:

To limit exposure, maximum limits have been set out for an individual debtor or economic group based on capital funds of the Bank.

Concentration Limits:

To limit concentration per activity or industry, exposure limits have been approved based on capital distribution and the strategic orientation set for the loan portfolio. The Bank has also limited its exposure in different geographical areas through the country risk policy, the countries in which the Bank is willing to have exposure have been defined based on its strategic plan as well as, the credit and investment limit exposure in such countries based on credit rating of each one.

Counterparty Maximum Limits:

In regard to counterparty exposure, limits have been defined based on risk rating of the counterparty, as a proportion of the Bank's capital.

Review of Compliance Policies:

Each business unit is responsible for the quality and performance of credit portfolios, as well as the control and monitoring of the risks. However, through its Risk Department, which is independent of the business areas, evaluate the financial conditions of debtors and their payment capacity is assessed regularly, giving attention to major individual debtors. For the rest of the credits that are not individually significant, follow-ups are done based on delinquency of payments and specific conditions of such portfolios.

Review of guarantees:

The Bank holds collaterals for loans granted to customers related to mortgages on properties and other guarantees. Estimates of fair value are based on current appraisals of the collateral and taking into account the evaluation of support and possibilities of realization of each type of guarantee. These guarantees are updated according to the period of credit time and in the credit conditions in which the credit is impaired individually.

Impairment and provisioning policies:

The internal and external systems of classification are focused on the credit quality since the beginning of the loan and investment activities. By contrast, an impairment allowance is recognized for financial reporting purposes based on the expected loss model based on IFRS 9. Due to the different methodologies applied, the amount of credit losses provided for in the consolidated financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

Credit quality analysis

4.2.1 Table of the credit quality of financial assets and the impairment allowance

	2020	2019
Bank deposits		
Level 1	507,060,948	564,700,490
Loans		
Level 1	5,690,853,648	5,665,095,828
Level 2	370,189,849	377,269,925
Level 3	99,664,615	123,457,752
Level 4	47,021,940	106,791,803
Level 5	128,392,158	129,170,056
Gross amount	6,336,122,210	6,401,785,364
Allowance for individual and collective impairment	(155,025,832)	(119,714,855)
Discounted unearned interest	(11,679,180)	(17,569,654)
Net carrying value	6,169,417,198	6,264,500,855
Renegotiated and restructured loans		
Gross amount	120,553,296	163,841,165
Impairment allowance	(29,863,244)	(14,291,281)
Carrying value	90,690,052	149,549,884
Delinquent but not impaired		
31 to 60 days	35,298,485	47,107,052
61 to 90 days	9,468,973	23,137
Sub-total	44,767,458	47,130,189
Allowance for loan impairment		
Individual	(54,881,462)	(52,432,529)
Collective	(100,144,370)	(67,282,326)
Total impairment allowance	(155,025,832)	(119,714,855)
Off-balance sheet transactions		
Level 1		
Letter of credit	102,177,552	103,962,439
Endorsements and guarantees	453,158,568	480,973,681
Promissory notes	231,749,808	291,308,678
Unused credit lines	439,087,347	510,768,024
	1,226,173,275	1,387,012,822
Securities purchased under resale agreements - at amortized cost		
Level 1	5,062,025	5,061,874
Investment at fair value through other comprehensive income		
Level 1	851,095,526	503,970,377
Investments at fair value through profit or loss		
Level 1	10,584,068	29,781,585
Investments at amortized cost		
Level 1	163,329,351	318,255,206

The aging of the delinquency of the loan portfolio is as follows:

	2020		
	Global Bank Corporation	Subsidiaries	Total
Current	5,972,345,006	165,027,951	6,137,372,957
31 to 90 days	70,357,095	-	70,357,095
More than 90 days (principal or interest)	101,190,553	-	101,190,553
More than 30 days overdue (maturity principal)	27,201,605	-	27,201,605
Total	6,171,094,259	165,027,951	6,336,122,210

	2019		
	Global Bank Corporation	Subsidiaries	Total
Current	6,028,517,518	153,806,409	6,182,323,927
31 to 90 days	90,128,086	163,296	90,291,382
More than 90 days (principal or interest)	107,482,377	184,604	107,666,981
More than 30 days overdue (maturity principal)	21,503,074	-	21,503,074
Total	6,247,631,055	154,154,309	6,401,785,364

4.2.2 Analysis of financial instruments and their respective reserves in the stages of IFRS 9

The internal classification and the "stage" without taking into account the effects of any collateral or other credit improvements are shown in the following tables thanks to the analysis of the Bank's credit risk exposure by class of financial assets. Unless specifically stated, for financial assets, the amounts in the table represent the gross carrying value. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

4.2.2.1 Loan Portfolio

4.2.2.1.1 Credit quality analysis of loans by stage:

2020

	Stage 1	Stage 2	Stage 3	Total
Classification				
Level 1	5,521,214,407	169,639,241	-	5,690,853,648
Level 2	-	370,189,849	-	370,189,849
Level 3	-	99,664,615	-	99,664,615
Level 4	-	47,021,940	-	47,021,940
Level 5	-	-	128,392,158	128,392,158
Gross amount	5,521,214,407	686,515,645	128,392,158	6,336,122,210
Reserve for expected losses	(22,875,106)	(77,269,264)	(54,881,462)	(155,025,832)
Net carrying value	5,498,339,301	609,246,381	73,510,696	6,181,096,378

2019

	Stage 1	Stage 2	Stage 3	Total
Classification				
Level 1	5,471,001,904	194,093,924	-	5,665,095,828
Level 2	-	377,269,925	-	377,269,925
Level 3	-	123,457,752	-	123,457,752
Level 4	-	106,791,803	-	106,791,803
Level 5	-	-	129,170,056	129,170,056
Gross amount	5,471,001,904	801,613,404	129,170,056	6,401,785,364
Reserve for expected losses	(15,497,853)	(51,784,473)	(52,432,529)	(119,714,855)
Net carrying value	5,455,504,051	749,828,931	76,737,527	6,282,070,509

4.2.2.1.2 Movement of the reserve for expected credit losses on loans by stages

The reserve for expected credit losses related to loans at amortized cost is broken down as follows:

2020

	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year	15,497,853	51,784,473	52,432,529	119,714,855
Changes due to financial instruments recognized as of July 1, 2019				
Transferred to Stage 1	20,682,856	(20,398,052)	(284,804)	-
Transferred to Stage 2	(4,096,555)	34,523,798	(30,427,243)	-
Transferred to Stage 3	(567,533)	(16,084,689)	16,652,222	-
Net effect of changes in the reserve for expected credit losses	(15,169,122)	35,221,684	51,997,500	72,050,062
Origination of new financial assets	9,637,619	-	-	9,637,619
Settled loans	(3,110,012)	(7,777,950)	(6,669,156)	(17,557,118)
Written-off loans	-	-	(31,574,609)	(31,574,609)
Recoveries	-	-	2,755,023	2,755,023
Balance at the end of the year	22,875,106	77,269,264	54,881,462	155,025,832

2019

	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year (IAS 39)	-	-	-	47,209,225
Reserve transferred to retained earnings	-	-	-	38,399,837
Balance at the beginning of the year	30,929,776	15,050,606	39,628,680	85,609,062
Transferred to Stage 1	14,065,844	(11,439,158)	(2,626,686)	-
Transferred to Stage 2	(21,838,404)	44,701,872	(22,863,468)	-
Transferred to Stage 3	(3,340,579)	(11,850,631)	15,191,210	-
Net effect of changes in the reserve for expected credit losses	(9,309,445)	15,766,686	37,934,399	44,391,640
Origination of new financial assets	11,127,601	4,288,241	10,892,544	26,308,386
Settled loans	(6,136,940)	(4,733,143)	(12,033,067)	(22,903,150)
Written-off loans	-	-	(16,342,224)	(16,342,224)
Recoveries	-	-	2,651,141	2,651,141
Balance at the end of the year	15,497,853	51,784,473	52,432,529	119,714,855

Incorporation of information with a prospective vision

The Bank uses prospective information that is available without undue cost or effort in its assessment of significant increases in credit risk, as well as in its measurement of expected loss provisions. The Bank's Risk Department uses external and internal information to generate a 'base case' scenario of the future forecast of relevant economic variables along with a representative range of other possible projected scenarios. The external information used includes economic data and forecasts published by government agencies and monetary authorities. These short and medium term projections are the fundamental basis of the forward looking model.

The Bank applies probabilities to the identified forecasting scenarios. The base case scenario is the most likely individual outcome. The Bank has identified and documented the analysis of credit risk and expected losses and, using statistical analysis of historical data, has estimated the relationships between macroeconomic variables and credit risk and credit losses.

For the year ending June 30, 2020, and given the effects on the economy resulting from COVID-19, the Bank has incorporated a post model adjustment to the estimate. In this adjustment, the main macroeconomic variable that enters the forward looking model is the projection of the Gross Domestic Product (GDP), which is the fundamental basis for the projection of the unemployment rate and with this, the probable rate of credit in default. The impact of this adjustment was an increase in the provision for expected losses in the amount of B/.24,553,433.

The following table lists the macroeconomic assumptions used, under the base, optimistic and pessimistic scenarios and considers an average forecast period of two years. In addition, a sensitivity of the differential between the expected loss provision selected based on the weighting of the different scenarios and the expected loss provision of each scenario is included.

	Growth		Sensitivity on the reserve
Scenario	GDP	Unemployment	selected
Optimistic	1.50%	9%	(10,799,208)
Base	0.0%	11%	(1,542,603)
Pessimistic	-1.50%	13%	9,170,906

The relationships predicted between key indicators and default rates and loss rates have been developed based on the historical data analysis over the past 9 years.

The effects known to Management and which can be reasonably estimated have been recognized in the June 30, 2020 consolidated financial statements. The principal assumptions described above may change as economic and market conditions change. (See Note 35).

4.2.2.2 Investment portfolio

The following table analyzes the Bank's investment portfolio broken down by credit risk and its respective evaluation based on the degree of international rating:

2020	With investment rating	Special monitoring	Without international rating	Total
Investments at fair value through other comprehensive income	367,923,452	203,024,401	280,147,673	851,095,526
Investments at fair value through profit or loss	922,991	-	9,661,077	10,584,068
Investments at amortized cost	130,589,286	12,573,304	20,166,761	163,329,351
Securities purchased under resale agreements	-	-	5,062,025	5,062,025
Total	499,435,729	215,597,705	315,037,536	1,030,070,970

2019	With investment rating	Special monitoring	Without international rating	Total
Investments at fair value through other comprehensive income	152,961,939	90,156,005	260,852,433	503,970,377
Investments at fair value through profit or loss	19,922,008	-	9,859,577	29,781,585
Investments at amortized cost	250,119,067	68,136,139	-	318,255,206
Securities purchased under resale agreements	-	-	5,061,874	5,061,874
Total	423,003,014	158,292,144	275,773,884	857,069,042

To manage the financial risk exposures of the investment portfolio, the Bank uses the rating of external rating agencies, as shown below:

Grade of rating	***External rating***
Investment grade	AAA, AA+, AA–, A+, A–, BBB+, BBB, BBB–
Standard monitoring	BB+, BB, BB–, B+, B, B–
Special monitoring	CCC a C
Default	D
Without rating	–

The reserve for expected credit losses related to investments at fair value through other comprehensive income is broken down as follows:

2020

Investments at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year	2,669,955	-	-	2,669,955
Net effect of changes in the reserve for expected credit losses	(1,019,054)	-	-	(1,019,054)
Reclassification	260,303	-	-	260,303
New instruments acquired	648,486	-	-	648,486
Paid-off investments	(766,548)	-	-	(766,548)
Balance at the end of the year	1,793,142	-	-	1,793,142

2019

	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year	2,484,466	-	-	2,484,466
Transfers from 12-month to lifetime without credit impairment	(8,645)	8,645	-	-
Net effect of changes in the reserve for expected credit losses	122,040	22,386	-	144,426
New instruments acquired	590,815	-	-	590,815
Paid-off investments	(518,721)	(31,031)	-	(549,752)
Balance at the end of the year	2,669,955	-	-	2,669,955

The reserve for expected credit losses related to investments at amortized cost is broken down as follows:

2020

Investments at amortized cost	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year	279,397	-	-	279,397
Net effect of changes in the reserve for expected credit losses	25,342	-	-	25,342
Reclassification	(260,303)	-	-	(260,303)
New instruments acquired	313,199	-	-	313,199
Paid-off investments	(18,486)	-	-	(18,486)
Balance at the end of the year	339,149	-	-	339,149

2019

	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year	185,390	-	-	185,390
Net effect of changes in the reserve for expected credit losses	(1,629)	-	-	(1,629)
New instruments acquired	264,236	-	-	264,236
Paid-off investments	(168,600)	-	-	(168,600)
Balance at the end of the year	279,397	-	-	279,397

4.2.2.3 Collateral to reduce credit risk and its financial impact

The Bank maintains collateral to reduce credit risk and to ensure the collection of its financial assets exposed to credit risk.

The main types of collateral assigned to different types of financial assets are presented below:

	Consumer				Corporate		
2020	**Personal**	**Credit cards**	**Vehicles**	**Mortgages**	**Commercial**	**Overdraft**	**Total loans**
Loan balances	738,961,575	149,150,127	265,346,309	1,776,866,924	3,215,375,955	190,421,320	6,336,122,210
Collateral	362,191,799	4,594,393	381,285,417	2,469,939,427	6,112,616,424	346,067,249	9,676,694,709
% of exposure subject to guarantee requirements	49%	3%	144%	139%	190%	182%	153%

	Consumer				Corporate		
2019	**Personal**	**Credit cards**	**Vehicles**	**Mortgages**	**Commercial**	**Overdraft**	**Total loans**
Loan balances	729,501,916	122,926,231	296,146,866	1,734,526,046	3,345,121,690	173,562,615	6,401,785,364
Collateral	362,119,439	3,975,165	434,379,555	2,385,021,277	6,343,686,745	287,200,520	9,816,382,701
% of exposure subject to guarantee requirements	50%	3%	147%	138%	190%	165%	153%

Residential mortgage loans

The table below shows the loan portfolio ratio of the mortgage portfolio in relation to the value of the collateral ("Loan-To-Value" – LTV). The LTV is calculated as a percentage of the gross amount of the loan in relation to the value of the guarantee. The gross amount of the loan excludes any impairment loss. The value of the collateral, for mortgages is based on the original value of the collateral at the date of disbursement.

	2020	**2019**
Residential mortgage loans:		
Less than 50%	113,509,742	107,471,116
51% - 70%	358,396,882	329,418,178
71% - 90%	889,235,822	849,903,592
Over 90%	415,724,478	447,733,160
Total	1,776,866,924	1,734,526,046

Time deposits placed in banks

As of June 30, 2020, the Bank held time deposits in Banks for B/.312,958,879 (2019: B/.418,971,436). Time deposits in banks are kept in domestic and foreign financial institutions. These institutions have domestic and/or international ratings, mostly with an international investment grade of at least BBB- by Fitch Ratings or Standard and Poor's, or Baa3 by Moody's.

4.2.2.4 Concentration of credit risk

The Bank monitors the concentration of credit risk by sector and geographic location. The analysis of the concentration of credit risks as of the date of the consolidated financial statements is as follows:

	2020		
	Bank deposits	**Loans**	**Investments**
Concentration by sector:			
Corporate	-	3,255,811,269	-
Consumer	-	2,943,946,298	-
Government	147,970,153	-	335,836,312
Other sectors	359,090,795	136,364,643	694,234,658
	507,060,948	6,336,122,210	1,030,070,970
Geographic concentration:			
Panama	251,852,557	6,013,470,709	507,943,304
Latin America and the Caribbean	40,078,365	291,838,084	292,098,194
Europe, Asia and Oceania	112,570,200	30,813,417	21,951,941
United States of America	102,559,826	-	208,077,531
	507,060,948	6,336,122,210	1,030,070,970

	2019		
	Bank deposits	**Loans**	**Investments**
Concentration by sector:			
Corporate	-	3,393,750,745	-
Consumer	-	2,897,989,914	-
Government	43,327,690	-	195,854,779
Other sectors	521,372,800	110,044,705	661,214,263
	564,700,490	6,401,785,364	857,069,042
Geographic concentration:			
Panama	281,994,484	6,132,223,844	389,346,928
Latin America and the Caribbean	40,078,427	239,432,835	309,486,289
Europe, Asia and Oceania	79,351,645	30,128,685	60,350,289
United States of America	163,275,934	-	97,885,536
	564,700,490	6,401,785,364	857,069,042

In concentration by sector, the items of other loans correspond to credit facilities with banks, credit unions, insurance companies, financial companies, government, international organizations and non-governmental organizations.

The geographic concentrations of the loan portfolio are based on the debtor’s location. As for the geographical concentration for investments, it is based on the address of the investment’s issuer.

4.3 Liquidity or financing risk

Liquidity risk is defined as the risk that the Bank may encounter difficulties in obtaining funds to meet its commitments and obligations on time.

The respective Committees appointed by the Board of Directors periodically monitors the availability of liquid funds given that the Bank is exposed to daily requirements, current accounts, time deposits at maturity and loan disbursements. The global liquidity risk of the Bank is managed by the Assets and Liabilities Committee (ALCO).

Panamanian Banking Regulations require banks with a general license to keep at all times a minimum balance of liquid assets, as defined in Agreement 4-2008 of the Superintendency of Banks of Panama, of no less than 30% of their deposits. However, due to the conservative liquidity policies for covering their operating liabilities, the liquidity of the Bank based on this standard as of June 30, 2020 was 50.27% (2019: 56.48%).

Liquidity risk arising from the mismatch between assets and liabilities is measured by using the liquidity gap or financial mismatch. In this analysis, simulations and stress tests are performed based on the difficulties caused by the lack of liquidity, such as, unexpected withdrawals of funds contributed by creditors and clients, impairment in the quality of the loan portfolio, volatility of resources obtained, etc.

Below is the legal liquidity ratio corresponding to the margin of net liquid assets over the Bank's client deposits at the date of the consolidated financial statements:

	2020	**2019**
At the end of the year	**50.27%**	**56.48%**
Average for the year	53.84%	50.18%
Maximum for the year	64.94%	56.48%
Minimum for the year	49.56%	41.34%

The following table shows the undiscounted cash flows of the Bank's financial liabilities based on their remaining maturities with respect to the contractual maturity date. The expected flows of these instruments may vary significantly as a result of this analysis:

2020	Carrying value	Discounted cash flows	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits	5,171,767,213	5,211,036,297	3,267,465,885	1,405,532,788	516,670,188	21,367,436
Obligations with financial institutions	1,074,122,772	1,103,722,853	817,036,367	249,429,755	32,998,083	4,258,648
Marketable securities	23,300,000	23,533,632	23,533,632	-	-	-
Corporate bonds	1,133,628,975	1,361,730,748	88,812,760	736,745,100	75,835,752	460,337,136
Subordinated bonds	7,898,069	35,141,054	542,270	1,083,054	1,084,539	32,431,191
Perpetual bonds	137,089,374	198,103,609	9,401,371	18,776,985	18,802,742	151,122,511
Lease liabilities	23,511,572	28,475,009	3,456,731	5,481,773	4,384,521	15,151,984
	7,571,317,975	7,961,743,202	4,210,249,016	2,417,049,455	649,775,825	684,668,906

2019	Carrying value	Discounted cash flows	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits	4,897,730,669	4,922,375,131	3,102,655,322	1,260,791,035	545,489,776	13,438,998
Obligations with financial institutions	920,612,697	978,165,323	461,519,664	447,331,093	44,005,975	25,308,591
Marketable securities	59,409,000	60,098,926	60,098,926	-	-	-
Corporate bonds	1,442,261,398	1,666,770,372	399,732,720	817,878,693	77,285,556	371,873,403
Subordinated bonds	7,892,580	35,819,614	534,769	1,069,538	1,069,538	33,145,769
Perpetual bonds	127,659,710	191,180,743	8,640,146	17,280,293	17,280,293	147,980,011
	7,455,566,054	7,854,410,109	4,033,181,547	2,544,350,652	685,131,138	591,746,772

To manage liquidity risk arising from financial liabilities, the Bank maintains effective liquid assets such as cash and cash equivalents and investments with an investment grade for which there is an active market. These assets can be sold easily to meet liquidity requirements. Consequently, the Bank believes that it is not necessary to disclose the maturity analysis related to these assets to allow the assessment of the nature and extent of liquidity risk.

4.4 Market risk

Market risk is the risk that the value of a financial asset may be reduced because of changes in interest rates, in foreign exchange rates, in stock prices, and other financial variables, as well as the reaction of market participants to political and economic events, whether by latent losses as well as potential profits. The objective of market risk management is to manage and monitor the risk exposures and at the same time to make sure that they are maintained within acceptable parameters, optimizing the risk returns.

Risk management policies set compliance with limits by financial instrument and the requirement that, unless approved by the Board of Directors, substantially all assets and liabilities are denominated in United States of America dollar or in balboas.

As part of market risk, the Bank and its subsidiaries are exposed to equity risk arising from the financial instruments available for sale.

The Bank manages the market risk of its financial instruments at fair value with changes in OCI through periodic reports to the Assets and Liabilities Committee (ALCO) and the Risk Committee in which changes in the price of each instrument are analyzed in order to take measures regarding the composition of the portfolio.

Within the Bank's investment strategy, duly approved by the Board of Directors, limits exposure are set to individual risks, which are approved, based on risk rating of the issuers of these instruments.

Additionally, as part of the market risk, the Bank and its subsidiaries are mainly exposed to the interest rate risk.

- *Interest rate risk of cash flows and fair value* – The interest rate risk of cash flows and fair value are the risks that will cause future cash flows and the value of financial instruments to fluctuate due to changes in market interest rates.

The Assets and Liabilities Committee (ALCO) periodically reviews the exposure to interest rate risk.

The following table summarizes the Bank's exposure to interest rate risk. The Bank's assets and liabilities are included in the table at carrying value, categorized by the earlier between the contractual repricing or maturity dates, whichever occurs first.

2020	Less than 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Without interest rate	Total
Financial assets:						
Cash and deposits	311,358,878	750,000	850,000	-	275,517,087	588,475,965
Securities purchased under resale agreements - at amortized cost	5,025,073	36,952	-	-	-	5,062,025
Investments at fair value through other comprehensive income	338,362,223	23,561,870	214,753,697	226,685,620	47,732,116	851,095,526
Investments at fair value through profit or loss	-	-	-	922,991	9,661,077	10,584,068
Investments at amortized cost	-	-	53,476,257	109,853,094	-	163,329,351
Loans	4,855,007,285	13,523,345	146,739,958	1,320,851,622	-	6,336,122,210
Total financial assets	5,509,753,459	37,872,167	415,819,912	1,658,313,327	332,910,280	7,954,669,145
Financial liabilities:						
Client deposits	2,047,805,882	761,616,623	1,902,163,422	20,748,320	439,432,966	5,171,767,213
Obligations with financial institutions	1,074,122,772	-	-	-	-	1,074,122,772
Marketable securities	20,000,000	3,300,000	-	-	-	23,300,000
Corporate bonds	34,979,313	-	715,871,252	382,778,410	-	1,133,628,975
Subordinated bonds	-	-	-	7,898,069	-	7,898,069
Perpetual bonds	-	-	-	137,089,374	-	137,089,374
Total financial liabilities	3,176,907,967	764,916,623	2,618,034,674	548,514,173	439,432,966	7,547,806,403
Commitments and contingencies	-	-	-	-	1,226,173,275	1,226,173,275
Total interest rate sensitivity	2,332,845,492	(727,044,456)	(2,202,214,762)	1,109,799,154	(106,522,686)	406,862,742

2019	Less than 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Without interest rate	Total
Financial assets:						
Cash and deposits	417,334,333	37,103	1,600,000	-	188,684,354	607,655,790
Securities purchased under resale agreements - at amortized cost	5,025,049	36,825	-	-	-	5,061,874
Investments at fair value through other comprehensive income	143,928,061	1,486,271	204,347,802	108,943,930	45,264,313	503,970,377
Investments at fair value through profit or loss	18,968,296	-	-	953,712	9,859,577	29,781,585
Investments at amortized cost	-	-	97,044,124	221,211,082	-	318,255,206
Loans	4,930,770,859	24,540,880	144,361,038	1,302,112,587	-	6,401,785,364
Total financial assets	5,516,026,598	26,101,079	447,352,964	1,633,221,311	243,808,244	7,866,510,196
Financial liabilities:						
Client deposits	1,785,605,227	837,861,888	1,792,291,806	13,412,162	468,559,586	4,897,730,669
Obligations with financial institutions	826,980,898	93,631,799	-	-	-	920,612,697
Marketable securities	49,459,000	9,950,000	-	-	-	59,409,000
Corporate bonds	1,318,933,921	-	123,327,477	-	-	1,442,261,398
Subordinated bonds	-	-	-	7,892,580	-	7,892,580
Perpetual bonds	-	-	-	127,659,710	-	127,659,710
Total financial liabilities	3,980,979,046	941,443,687	1,915,619,283	148,964,452	468,559,586	7,455,566,054
Commitments and contingencies	-	-	-	-	1,387,012,822	1,387,012,822
Total interest rate sensitivity	1,535,047,552	(915,342,608)	(1,468,266,319)	1,484,256,859	(224,751,342)	410,944,142

To assess the interest rate risks and impact on the fair value of the assets and liabilities, the Bank performs simulations to determine the sensitivity of assets and liabilities.

Management's monthly analysis is to determine the net impact on the financial instruments subject to market risk, taking into account the specific effects caused by increases and decreases of 100 basis points in interest rates. The results of these simulations are presented monthly in the asset liability committee (ALCO) to determine if the financial instruments of the Bank's portfolio are within acceptable risk parameters for Management.

An analysis of the Bank's sensitivity is performed to determine the impact on assets and liabilities of the increases or decreases in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position is presented as follows:

2020	**Increase of 100bps**	**Decrease of 100bps**
Investments in securities	(30,345,219)	32,154,746
Loans	(18,220,047)	19,508,844
Time deposits	51,580,968	(53,347,119)
Obligations with financial institutions	7,274,500	(7,460,451)
Marketable securities	82,201	(82,685)
Corporate bonds	35,853,892	(38,230,746)
Subordinated and perpetual bonds	2,878,021	(3,216,781)
Net impact	49,104,316	(50,674,192)

2019	**Increase of 100bps**	**Decrease of 100bps**
Investments in securities	(32,670,774)	34,920,364
Loans	(17,900,395)	19,179,338
Time deposits	50,325,201	(52,076,910)
Obligations with financial institutions	11,177,735	(11,510,498)
Marketable securities	196,136	(195,227)
Corporate bonds	24,652,516	(26,792,752)
Subordinated and perpetual bonds	3,669,466	(4,039,054)
Net impact	39,449,885	(40,514,739)

4.5 Operating Risk

Operating risk is the risk of potential loss, directly or indirectly, related to the processes of the Bank, human resources, technology, infrastructure and other external factors that are not related to credit, market or liquidity risks, such as those arising from legal and of regulatory requirements and generally accepted corporate standards.

The objective of the Bank is to manage operational risk in order to avoid financial losses and damages to the Bank's reputation.

The Bank has established an integral Operational Risk Administration and Management Policy approved by the Risk Committee, General Management and the Audit Committee of the Board of Directors. The Risk Committee measures liquidity risk, market risk, credit risk and operating risk.

The operating risk management structure has been designed to segregate duties among shareholders operational, control areas and areas in charge of compliance of policies and procedures. The business and services units of the Bank assume an active role in the identification, measurement, control and monitoring of operational risks and is responsible for understanding and managing these risks within their daily activities.

The implementation of this risk management structure has implied the adoption by the Bank of a methodology of business process assessments based on risks, in which the areas and key processes in relation to strategic objectives, business inherent risks, and mapping the cycle process to identified risks and mitigating controls. This is performed with technological tools that allow us to document, quantify and monitor the identified risks in different processes through risk matrixes. The Internal Audit Department through its activities reviews of the compliance with procedures and controls, and together with the Risk Management Department, monitors the severity of the related risks. This methodology has the main objective of adding the maximum value to each activity of the organization by decreasing the possibilities of failures and losses.

In order to establish such methodology, the Bank has assigned resources to enforce internal control and organizational structure allowing independence among business areas, risk control and recordkeeping. It includes a proper operating segregation of duties in the transactional recording, reconciliation and authorization, which is documented through policies, processes and procedures that include control and security standards.

In regard to human resources, the recruitment, evaluation and retention polices have been enforced to maintain highly qualified personnel with professional experience able to accomplish orientation processes in different positions, training, understanding and acceptance of business and conduct policies stated in the Bank's Code of Ethics.

The Bank has made significant investments in technology to increase efficiency in the different business processes and reduce risk profiles. For such purposes, security policies have been reinforced and policies for technology risk management have been set forth. On the other hand, the Bank is also working on a Contingency Plan to support main applications of information on-line in case of a disruption.

4.6 Insurance risk

Insurance risk is the risk inherent in insurance contracts which involves the probability of a sudden unforeseeable, unanticipated and separate event from the will of the policy holder and resulting in a claim by the policy holder resulting in the reduction of an asset or establishing a liability.

The main risk of the Company in relation to its insurance contracts is that the benefits and claims payments of the current claims or their occurrence differ from expectations. This risk is influenced by the frequency of claims, benefits and actual claims paid, the development of long-term or long lines of claims, as well as claims for catastrophic events in which a large part of both the internal as well as reinsurer portfolio is affected.

The portfolio of insurance contracts is managed mainly under a strict underwriting policy based on the diversification and analysis of risk concentrations, application of rates, conservative practices in long and short-term investments and retention policies through reinsurance contracts. These reinsurance agreements include "stop loss", excess loss and catastrophic contracts in each of the branches in which it operates. Current contracts allow the acquisition of additional coverages, if required, in the event of a significant event. However, the Company's main risk is that current claims and payments of benefits to insured persons may exceed the present value of the accumulated liabilities arising from the frequency and/or severity of the events. To mitigate this, the Company adopts reasonable estimation policies and through evaluations assisted by statistical techniques and actuarial calculations.

4.7 Capital management

As of June 30, 2020, the Bank analyzes its regulatory capital applying the standards of the Superintendency of Banks of Panama based on the new agreements, Agreement 1-2015 of February 3, 2015 and Agreement 3-2016 of March 22, 2016, which modified Agreement 5-2008 of October 1, 2008, by means of which rules are established to determine assets weighted by credit risk and counterparty risk and the new agreements, Agreements 11-2018 of September 11, 2018, amended by Agreement 3-2019 of April 30, 2019, by means of which new provisions are established on Operational Risk and Agreement 2-2018 of January 23, 2018, by means of which, the Superintendency of Banks of Panama has determined to take into consideration other risks to determine the capital adequacy index, among which are the market risk, the operational risk and the country risk, in order to value the requirement of capital funds.

As a consequence of the global health effects due to the COVID-19 pandemic decreed by the World Health Organization (WHO), the need and convenience of establishing special temporary measures has been emphasized such as the validity of appraisal reports used for establishing guarantees on movable and immovable property by means of General Resolution SBP-GJD-0004-2020 of the Board of Directors. Additionally, for the purposes of Article 2 of Agreement 3-2016, all risk assets classified in categories 7 and 8, whose weighting is 125% and 150% respectively, will be temporarily weighted as part of category 6, whose weighting is 100% by means of General Resolution SBP-GJD-0005-2020 of the Board of Directors.

Under the Panamanian Banking Law, banks with a general license are required to maintain a minimum paid-in capital of B/.10,000,000, and shareholders' equity of at least 8% of their risk-weighted assets, including the off-balance sheet financial instruments. For these effects, assets must be considered net of reserve or allowances and are weighted as per the Agreement of the Superintendency of Banks of Panama.

Based on the regulatory regime, capital requirements are measured as follows:

- *Primary capital* - It comprises ordinary primary capital and secondary primary capital. Ordinary primary capital comprises paid-up capital in shares, declared reserves, other items of comprehensive income and retained earnings. The paid-up capital in shares is that which is represented by common shares and perpetual non-cumulative preferred shares issued and fully paid. Declared reserves are those identified as such by the Bank coming from retained earnings in its books to strengthen its financial position. Additional primary capital comprises financial instruments that are perpetual, that is, they do not have a maturity date.

  Retained earnings are undistributed earnings in the fiscal period and accumulated from prior periods.

- *Secondary capital* – It includes hybrid capital and debt instruments, subordinated debt, general allowances for losses, undeclared reserves and asset revaluation reserves. The general reserves for losses are those reserve that are created voluntarily by the Bank's Management, with the purpose of *covering* losses that have not yet been identified; specific undeclared reserves are those appropriated from profit after tax and are available to cover future unanticipated losses and do not have any liens or encumbrances. Revaluation reserves of assets are comprised as the result of any revaluation performed on the Bank's assets.

- *Dynamic reserve* – As defined in Agreement 4-2013.

For calculating the amount of the capital funds of a general license bank, deductions must be taken into account, which will be made on a quarterly basis, as detailed below:

- Non-consolidated capital assigned to foreign branches.
- Non-consolidated paid-in capital of Bank's subsidiaries.
- Non-banking subsidiaries paid-in capital. The deduction includes recorded assets at higher-paid value, with respect of the carrying value, of permanent investments in local or foreign entities.
- Asset items related to expenses or other items that under generally accepted accounting principles and International Accounting Standards correspond to overvaluations or unrecognized losses; and also losses incurred anytime during the fiscal period.

The Bank maintains a regulatory capital position that is composed as follows:

	2020	2019
Primary capital (Tier 1)		
Paid-in share capital	270,202,657	270,202,657
Excess paid-in capital	1,999,307	2,514,337
Declared reserves	41,500,057	40,589,907
Retained earnings	369,041,979	363,695,990
Other items of comprehensive income	1,439,777	6,099,208
Dynamic reserve	87,863,198	87,863,198
Sub total	772,046,975	770,965,297
Less: Regulatory adjustments to the calculation of ordinary primary capital		
Trade funds	(92,014,817)	(91,695,403)
Other intangible assets	(22,461,470)	(24,004,810)
Total primary capital funds	657,570,688	655,265,084
Perpetual bonds	137,089,374	127,659,710
Total additional primary capital funds	137,089,374	127,659,710
Subordinated bonds	7,898,069	7,892,580
Total secondary capital funds	7,898,069	7,892,580
Total capital funds	802,558,131	790,817,374
Risk-weighted asset		
Total risk weighted assets	5,505,142,076	5,664,454,845
Capital ratios		
Total regulatory capital expressed as a percentage of risk-weighted assets	14.58%	13.96%
Total Tier 1 expressed as a percentage of risk-weighted assets	14.43%	13.82%

5. Accounting estimates, critical judgments and contingencies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are periodically assessed and based on the historical experience and other factors, including expectations of future events considered reasonable under the circumstances.

Judgments

In the process of applying the Bank's accounting policies, Management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

(a) Valuation of business model: The classification and measurement of financial assets depends on the results of the SPPI and the testing of the business model. The Bank determines the business model at a level that reflects how financial asset groups are managed together to achieve a particular business objective. This valuation includes reflecting all relevant evidence including how asset performance is evaluated and its performance measured, the risks that affect asset performance and how they are managed. The Bank monitors financial assets measured at amortized cost or at fair value through other comprehensive income that are written-off before maturity, to understand the reason for write-off and whether the reasons are consistent with the business objective for which the asset was held.

(b) Significant increase in credit risk: For stage 1 assets, the expected losses are measured as a reserve equal to 12-months expected credit losses, or life time expected losses for Stage 2 assets or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. When assessing whether the credit risk of an asset has increased significantly, the Bank takes into account reasonable and supported prospective information, both qualitative and quantitative.

(c) Establishing the number and relative weights of prospective scenarios and determining the relevant prospective information for each scenario: When measuring ECLs, the Bank uses reasonable and supportive prospective information, which is based on assumptions for the future movement of different economic forecasts and how those forecasts will affect each other. See Note 4.2.2.1.2 for further details.

(d) Establishment of groups of assets with similar credit risk characteristics: When expected credit losses are measured on a collective basis, financial instruments are grouped based on shared risk characteristics.

The Bank monitors the appropriateness of credit risk characteristics on a continuous basis to assess whether they continue to be similar. This is required to ensure that, when the credit risk characteristics change, there is appropriate re-segmentation of the assets. This may result in the creation of new portfolios or that assets are moved to an existing portfolio that best reflects the similar credit risk characteristics of that group of assets. Portfolio re-segmentation and movement between portfolios is more common when there is a significant increase in credit risk (or when this significant increase is reversed) and therefore assets move from 12-months to expected credit losses over a life time, or vice versa, but it can also occur within portfolios that continue to be measured with the same 12-month basis or expected credit losses over a life time but the amount of expected credit losses changes because the portfolio's credit risk differs.

(e) Models and assumptions used: The Bank uses various models and assumptions in measuring the fair value of financial assets, as well as in estimating expected credit losses. The judgment is applied in the identification of the most appropriate model for each type of asset, as well as to determine the assumptions used in those models, including the assumptions that relate to the key credit risk indicators.

(f) Reserve for expected credit losses – When determining the reserve for expected credit, Management's judgment is required to evaluate the amount and timing of future cash flows in order to determine whether the credit risk has increased significantly from initial recognition, taking into account loan characteristics and default patterns in the past for similar financial instruments. The changes in the risk of default that occur in the next 12 months may be a reasonable approximation of the changes in the risk measured according to the life of the instrument. The Bank uses the changes in the risk of default that occur in the next 12 months to determine if the credit risk has increased significantly since initial recognition, unless the circumstances indicate that an assessment of the life of the instrument is necessary.

(g) Impairment losses on loans at amortized cost - The Bank reviews its individually significant loans on each date of the consolidated statement of financial position to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, Management's judgment in estimating the amount and future cash flows is required to determine the impairment loss. These estimates are based on assumptions regarding a number of factors and actual results may differ, resulting in future changes in the provision. Loans that have been individually assessed (and are not impaired) are evaluated together with other non-significant loans in groups of assets with similar risk characteristics. This is done to determine whether it is convenient to establish reserves due to loss events incurred for which there is objective evidence, but whose effects are not yet evident. The collective assessment takes into account the loan portfolio data (such as delinquency levels, credit utilization, loan-guarantee relationships, etc.), and judgments on the effect of risk concentration and economic data (including unemployment levels, consumer price indexes, country risk and the performance of different individual groups).

(h) After evaluating the recoverable value of the generating units to which the goodwill is assigned, Management considers that the goodwill of Banvivienda's generating unit is the most significant given its weight, whose value is 82% of the total goodwill in the balance sheet and, in addition, the most susceptible to impairment caused by current economic conditions and the effects of COVID-19. The budgets include income forecasts, interest costs, provisions and general expenses based on current and anticipated market conditions that have been considered and approved by the Board of Directors. While the Bank has made the projections with the best evidence at the balance sheet date and applying its judgment to future forecasts, the projections are inherently uncertain due to the uncertainty in the economy about the ultimate effect that COVID-19 will have.

The key assumptions to determine recoverable value are disclosed in Note 13.

(i) Impairment of the value of investments measured at fair value through other comprehensive income and investments measured at amortized cost – The Bank reviews its debt securities classified as investments at fair value through other comprehensive income and investments at amortized cost at the end of each reporting date to assess whether they are impaired. This requires a judgment similar to that applied to the individual evaluation of investment securities. The Bank records impairment when there has been a significant or prolonged decrease in the fair value below its cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Bank evaluates, among other factors, historical price movements and the duration and degree to which the fair value of an investment is lower than its cost.

(j) Fair value and valuation processes of financial instruments – The Bank measures fair value using hierarchy levels that reflect the meaning of data inputs used in the measures. In order to determine fair value, the Bank has established a documented process and policies that assigns responsibilities and the segregation of duties among the different areas responsible involved in this process, which has been approved by the Assets and Liabilities Committee (ALCO), the Risk Committee, and the Board of Directors.

When the Bank uses or contracts third parties as pricing agents to determine the fair value of the instruments, this control unit assesses and documents the evidence obtained from these third parties that support the conclusion that such valuations meet IFRS requirements. This review includes:

- Verifying that the pricing agents have been approved by the Bank;
- Obtain an understanding of how the fair value was determined and if it reflects current market transactions.

IFRS 13 specifies a hierarchy of valuation techniques based on whether the information included in such valuation techniques is observable or unobservable. Observable information reflects market data obtained from independent sources; the non-observable information reflects the Bank's market assumptions. These two types of information have created the following fair value hierarchy:

Level 1: Inputs that are listed market prices (unadjusted) in active markets for identical assets and liabilities to those that the entity can access on the measurement date.

Level 2: Prices listed in active markets for similar financial instruments or use of a valuation technique where all variables are obtained from observable market information for the assets or liabilities either directly or indirectly. In some cases, the Bank uses benchmark information from active markets for similar instruments, and in other instances, it employs discounted flow techniques where all variables and inputs from the model are obtained from observable market information.

Level 3: When inputs are not available and the fair value is required through a valuation model, the Bank relies on entities engaged in the valuation of equity instruments or of the asset management entities or liabilities in question. The models used to determine the fair value are usually through discount of flows or valuations that use historical market observations.

Fair value of financial assets and financial liabilities measured at fair value on a recurring basis at the end of the year as of June 30, 2020 and 2019

Some of the financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/liabilities	Fair value 2020	Fair value 2019	Fair value hierarchy	Valuation technique(s) and key data inputs	Significant unobservable input data	Relationship between unobservable input data and fair value
Investments at fair value:						
Shares issued by companies - domestic	6,715,413	6,706,084	Level 2	Observable market prices in non-active markets.	N/A	N/A
Shares issued by companies - domestic	936,839	-	Level 3	Share prices in non-liquid market.	Calibration prices and calibration date.	If unobservable data increases, the fair value of the instruments will decrease.
Shares issued by companies - foreign	129,599	532,580	Level 2	Observable market prices in non-active markets.	N/A	N/A
Shares issued by foreign companies, not listed in stock exchange	2,500	-	Level 3	Share prices in non-liquid market.	Calibration prices and calibration date.	If unobservable data increases, the fair value of the instruments will decrease.
Private debt securities - domestic	18,739,189	11,734,734	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - domestic	31,796,555	71,722,779	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt securities - domestic	233,480,548	144,564,666	Level 3	Bond prices in non-liquid market.	Calibration prices and calibration date.	If unobservable data increases, the fair value of the instruments will decrease.
Private debt securities - foreign	332,916,894	143,037,446	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - foreign	-	18,968,296	Level 2	Neutral risk valuation. Discount curves are created based on libor, and default probabilities for the underlying risks are calibrated to CDS quotes.	N/A	N/A
Government debt securities - domestic	23,044,748	29,004,532	Level 1	Observable market prices in active markets.	N/A	N/A
Government debt securities - domestic	-	1,729,469	Level 2	Observable market prices in non-active markets.	N/A	N/A
Government debt securities - domestic	9,990,340	3,331,889	Level 3	Share prices in non-liquid market.	Calibration prices and calibration date.	If unobservable data increases, the fair value of the instruments will decrease.
Shares issued by domestic companies, not listed in stock exchange	753,489	-	Level 3	Bond prices in non-liquid market.	Calibration prices and calibration date.	If unobservable data increases, the fair value of the instruments will decrease.
Government debt securities - foreign	153,669,020	53,648,620	Level 1	Observable market prices in active markets.	N/A	N/A
Shares issued by domestic companies, not listed in stock exchange	49,504,460	48,770,867	Level 3	Price per share, adjusted for the fair value of the issuer's properties, acquisition cost.	Growth in issuer's assets, liabilities, equity and profits.	If growth increases, the price increases and viceversa.
Total investments at fair value	861,679,594	533,751,962				
Derivative financial instruments:						
Interest rate and exchange rate swaps – fair value	-	(8,105,718)	Level 2	Present value. The valuation of an interest rate swap is achieved by adding the present value of all expected swap flows, and then applying a credit adjustment.	N/A	N/A
Total derivative financial instruments	-	(8,105,718)				

The Bank considers that its valuation methodologies for Level 3 investments are appropriate. However, the use of different estimates of unobservable inputs could give different results as to the fair value of such investments. For investments classified as Level 3, valued by the Bank, adjustments in the credit margin in the case of fixed income (+100 bps and - 100 bps) would result in the following favorable and unfavorable impacts on the Bank's equity.

	2020	
	Investments at fair value through other comprehensive income	
	Effect on equity	
	Favorable	**(Unfavorable)**
Fixed income instruments	9,373,754	(8,846,413)

	2019	
	Investments at fair value through other comprehensive income	
	Effect on equity	
	Favorable	**(Unfavorable)**
Fixed income instruments	7,895,421	(7,388,097)

Fair value of financial assets and liabilities of the Bank not measured at fair value on a recurring basis (but that require fair value disclosures) at the end of the year

A summary of the carrying value of main assets and liabilities not measured at fair value in the Bank's consolidated statement of financial position is summarized as follows:

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and deposits in banks	275,517,086	275,517,086	188,684,354	188,684,354
Time deposits	312,958,879	312,958,879	418,971,436	418,971,436
Securities purchased under resale agreements - at amortized cost	5,062,025	5,062,025	5,061,874	5,061,874
Investments at amortized costs	163,329,351	167,822,347	318,255,206	329,536,325
Loans, net	6,169,417,198	6,248,190,068	6,264,500,855	6,315,723,110
Total financial assets	6,926,284,539	7,009,550,405	7,195,473,725	7,257,977,099
Liabilities				
Demand deposits	439,432,966	439,432,966	468,559,586	468,559,586
Savings deposits	1,038,507,979	1,038,507,979	961,129,179	961,129,179
Time deposits	3,693,826,268	3,777,205,726	3,468,041,904	3,534,969,702
Obligations with financial institutions	1,074,122,772	1,063,700,059	920,612,697	920,928,851
Marketable securities	23,300,000	23,361,897	59,409,000	59,652,798
Corporate bonds	1,133,628,975	1,165,061,965	601,536,773	627,744,500
Subordinated bonds	7,898,069	7,903,780	7,892,580	8,010,310
Perpetual bonds	137,089,374	136,647,990	127,659,710	128,696,000
Total financial liabilities	7,547,806,403	7,651,822,362	6,614,841,429	6,709,690,926

	Fair value hierarchy 2020			
	Total	Level 1	Level 2	Level 3
Assets				
Cash and bank deposits	275,517,086	-	275,517,086	-
Time deposits	312,958,879	-	312,958,879	-
Securities purchased under resale agreements - at amortized cost	5,062,025	-	5,062,025	-
Investments at amortized cost	167,822,347	149,497,709	-	18,324,638
Loans, net	6,248,190,068	-	-	6,248,190,068
Total financial assets	7,009,550,405	149,497,709	593,537,990	6,266,514,706
Liabilities				
Demand deposits	439,432,966	-	439,432,966	-
Savings deposits	1,038,507,979	-	1,038,507,979	-
Time deposits	3,777,205,726	-	3,777,205,726	-
Obligations with financial institutions	1,063,700,059	-	1,063,700,059	-
Marketable securities	23,361,897	-	23,361,897	-
Corporate bonds	1,165,061,965	1,040,365,070	54,696,895	70,000,000
Subordinated bonds	7,903,780	-	3,022,470	4,881,310
Perpetual bonds	136,647,990	-	136,647,990	-
Total financial liabilities	7,651,822,362	1,040,365,070	6,536,575,982	74,881,310

	Fair value hierarchy 2019			
	Total	Level 1	Level 2	Level 3
Assets				
Cash and due from banks	188,684,354	-	188,684,354	-
Time deposits	418,971,436	-	418,971,436	-
Securities purchased under resale agreements - at amortized cost	5,061,874	-	5,061,874	-
Investments at amortized cost	329,536,325	329,536,325	-	-
Loans, net	6,315,723,110	-	-	6,315,723,110
Total financial assets	7,257,977,099	329,536,325	612,717,664	6,315,723,110
Liabilities				
Demand deposits	468,559,586	-	468,559,586	-
Savings deposits	961,129,179	-	961,129,179	-
Time deposits	3,534,969,702	-	3,534,969,702	-
Obligations with financial institutions	920,928,851	-	920,928,851	-
Negotiable trade securities	59,652,798	-	59,652,798	-
Corporate bonds	627,744,500	467,923,500	-	159,821,000
Subordinate bonds	8,010,310	-	8,010,310	-
Perpetual bonds	128,696,000	-	128,696,000	-
Total financial liabilities	6,709,690,926	467,923,500	6,081,946,426	159,821,000

The fair values of financial assets and liabilities included in Level 2 and Level 3 as shown above have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

The fair value of interbank and client deposits is estimated using the discounted cash flow technique, by applying rates offered for deposits with similar terms and maturities. The fair value for demand deposits is the amount payable at the date of the consolidated financial statements.

The movement of investments at fair value through other comprehensive income and investments available for and investments at fair value through profit or loss in Level 3 is as follows:

	2020	2019
Balance at the beginning of the year	197,551,777	132,297,085
Additions	75,192,430	46,213,755
Additions from acquisition of subsidiary	-	119,752
Reclassifications from Level 2 to Level 3	36,006,966	56,687,645
Reclassifications from Level 3 to Level 2	(3,860)	(4,456,822)
Net changes in securities	(600,674)	1,725,609
Redemptions	(13,478,463)	(35,035,247)
Balance at the end of the year	294,668,176	197,551,777

As of June 30, 2020, investments at fair value with changes in other comprehensive income in Level 3 did not affect the Bank's results.

The total unrealized gain or loss for fair value investments through changes in other comprehensive income classified as Level 3 as of June 30, 2020 is B/.1,207,370 (2019: B/.606,696).

As of June 30, 2020, reclassifications between Level 2 and Level 3 investments in domestic corporate bonds occurred as a result of observed activity in the securities market in which they are listed.

6. Balances and transactions with related parties

A summary of balances and transactions with related parties included in the consolidated financial statements is as follows:

	2020	2019
Related party transactions parties		
Consolidated statement of financial position		
Assets		
Investments at fair value through other comprehensive income	15,829,353	17,970,923
Loans	58,918,002	47,012,367
Accrued interest receivable	838,560	58,792
Other assets	44,162,235	39,358,565
Liabilities		
Client deposits:		
Demands	15,729,693	17,272,104
Savings	10,989,662	14,244,785
Time	108,543,997	107,284,509
Accrued interest payable	245,830	232,778
Commitments and contingencies	40,432,000	42,859,500

Consolidated statement of profit or loss

	2020	2019
Income and expenses		
Interest and dividend income	5,966,035	3,576,362
Interest expenses	4,431,851	3,078,716

	2020	2019
Transactions with Directors and key Management personnel		
Consolidated statement of financial position		
Assets		
Loans	12,419,400	13,054,033
Accrued interest receivable	79,200	38,282
Liabilities		
Client deposits:		
Demands	3,043,618	2,939,251
Savings	11,516,797	7,368,865
Time	44,682,814	41,113,166
Accumulated interest payable	112,973	130,564
Commitments and contingencies	1,576,500	1,741,500

Consolidated statement of profit and loss	**2020**	**2019**
Income and expenses		
Interest income	569,263	624,878
Interest expenses	867,321	683,381
Benefits of key Management personnel		
Salaries	5,544,752	4,559,059
Profit sharing	1,826,788	1,390,918
Share option plan for employees	(515,030)	188,520
Allowances for Directors	705,000	509,500
	7,561,510	6,647,997

As of June 30, 2020, collaterals guaranteeing loans to related parties amounted to B/.133,865,942 (2019: B/.135,257,324), which correspond to property, furniture and securities.

As of June 30, 2020, no loans with related parties show evidence of impairment. As of June 30, 2020, loans with related parties with maturities between July 2020 and September 2048 and annual interest rates ranging between 0.75% and 9% (2019: with maturities between July 2019 and September 2048 and annual interest rates ranging between 0.75% and 9%).

7. Cash and cash equivalents

	2020	2019
Cash and cash equivalents	81,415,017	42,955,300
Demand deposits	194,102,069	145,729,054
Time deposits	312,958,879	418,971,436
Cash and bank deposits	588,475,965	607,655,790
Less:		
Restricted time deposits	(4,674,208)	(29,062,681)
Time deposits with original maturities greater than 90 days	(24,550,000)	(18,614,311)
Cash and cash equivalents for purposes of the consolidated statement of cash flows	559,251,757	559,978,798

As of June 30, 2020, there are time deposits with original maturities greater than 90 days for B/.24,550,000 (2019: B/.18,614,311). In addition, there are restricted time deposits for B/.4,674,208 (2019: B/.29,062,681) which guarantee financial obligations.

8. Securities purchased under resale agreements

As of June 30, 2020, securities purchased under resale agreements for B/.5,062,025 (2019: B/.5,061,874) with maturities in July 2020, September 2020 and May 2021 (2019: maturities in August 2019, September 2019 and May 2020), are guaranteed by corporate bonds of companies listed in the Panama Stock Exchange.

9. Investments in securities

The breakdown of investments in securities is as follows:

	2020	2019
Investments at fair value through other comprehensive income	851,095,526	503,970,377
Investments at fair value through profit or loss	10,584,068	29,781,585
Investments at amortized cost	163,329,351	318,255,206
Impairment allowance	(339,149)	(279,397)
Investments in securities, net	1,024,669,796	851,727,771

9.1 Securities at fair value through other comprehensive income

	2020	2019
Securities listed in a stock exchange:		
Shares issued by companies - domestic	2,855,752	1,711,084
Shares issued by companies - foreign	129,600	532,580
Private debt securities - domestic	284,016,292	228,022,179
Private debt securities - foreign	331,993,902	142,083,734
Government debt securities - domestic	33,035,088	34,065,890
Government debt securities - foreign	153,669,020	53,648,620
	805,699,654	460,064,087
Securities not listed in a stock exchange:		
Shares issued by companies - domestic	44,639,882	42,900,897
Shares issued by companies - foreign	2,500	-
Government debt securities - domestic	753,490	1,005,393
	45,395,872	43,906,290
	851,095,526	503,970,377

Investments at fair value through other comprehensive income accrued interest at a rate ranging between 2.11% and 9.38% (2019: 2.10% and 9.75%).

As of June 30, 2020, there are investments at fair value through other comprehensive income for B/.157,055,197 (2019: B/.34,991,892), which guarantee obligations with financial institutions (See Note 15).

As of June 30, 2020, the Bank sold and redeemed investments for B/.983,094,209 (2019: B/.388,886,673) and, as a result, recorded a profit of B/.7,409,280 (2019: B/.834,108), which is included in the consolidated statement of profit or loss.

9.2 Securities at fair value through profit or loss

The securities at fair value through profit or loss, is shown below:

	2020	2019
Securities listed in a stock exchange:		
Shares issued by companies - domestic	4,796,500	4,995,000
Private debt securities - foreign	922,991	19,922,008
	5,719,491	24,917,008
Securities not listed in a stock exchange:		
Shares issued by companies - domestic	4,864,577	4,864,577
	4,864,577	4,864,577
	10,584,068	29,781,585

9.3 Securities at amortized cost

	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
Securities listed in a stock exchange:				
Private debt securities - domestic	20,166,761	18,324,638	3,050,006	3,084,360
Private debt securities - foreign	-	-	213,126,475	219,897,796
Government debt securities - domestic	107,752,937	113,180,694	63,670,027	66,707,268
Government debt securities - foreign	35,409,653	36,317,015	38,408,698	39,846,901
	163,329,351	167,822,347	318,255,206	329,536,325

As of June 30, 2020, the annual interest rate earned by securities at amortized cost ranges between 2.85% and 8.875% (2019: 3.125% and 5.182%).

As of June 30, 2020, there are securities at amortized cost for B/.62,936,258 (2019: B/.35,239,338), which guarantee obligations with financial institutions. (See Note 15).

10. Loans

	2020			2019		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Domestic sector:						
Consumer	1,098,685,799	(29,277,906)	1,069,407,893	1,091,040,057	(25,603,592)	1,065,436,465
Commercial	1,312,258,778	(39,003,841)	1,273,254,937	1,265,781,283	(26,620,592)	1,239,160,691
Agricultural	393,138,731	(12,007,968)	381,130,763	432,892,025	(10,690,954)	422,201,071
Pledge	117,958,558	(886)	117,957,672	131,332,191	(2,281)	131,329,910
Overdrafts	142,012,600	(2,937,638)	139,074,962	132,118,688	(2,219,469)	129,899,219
Mortgages	1,776,866,924	(16,310,093)	1,760,556,831	1,734,526,046	(13,203,769)	1,721,322,277
Industrial	205,159,408	(3,498,688)	201,660,720	235,750,711	(5,428,161)	230,322,550
Construction	699,919,036	(35,573,146)	664,345,890	827,052,067	(19,548,473)	807,503,594
Financial leasings	54,838,765	(1,513,925)	53,324,840	62,665,605	(2,002,293)	60,663,312
Factoring	212,632,110	(10,792,442)	201,839,668	219,065,171	(11,338,126)	207,727,045
Total domestic sector	6,013,470,709	(150,916,533)	5,862,554,176	6,132,223,844	(116,657,710)	6,015,566,134
Foreign sector:						
Commercial	184,435,763	(1,289,831)	183,145,932	131,199,440	(1,023,058)	130,176,382
Agricultural	738,001	(566)	737,435	947,706	(3,773)	943,933
Industrial	37,313,131	(190,104)	37,123,027	40,283,960	(131,809)	40,152,151
Construction	40,785,863	(2,566,968)	38,218,895	37,716,466	(1,883,110)	35,833,356
Pledge	10,970,022	-	10,970,022	17,970,022	-	17,970,022
Overdrafts	48,408,721	(61,830)	48,346,891	41,443,926	(15,395)	41,428,531
Total foreign sector	322,651,501	(4,109,299)	318,542,202	269,561,520	(3,057,145)	266,504,375
	6,336,122,210	(155,025,832)	6,181,096,378	6,401,785,364	(119,714,855)	6,282,070,509
Less:						
Discounted unearned Interest and commissions			(11,679,180)			(17,569,654)
Total			6,169,417,198			6,264,500,855

As of June 30, 2020, the loan portfolio accrued interest at a rate ranging from 0.75% to 25.99% (2019: 0.75% to 24%).

As of June 30, 2020, there are loans that guarantee corporate bonds for a total of B/.196,436,317. (See Note 17).

The classification of the loan portfolio by type of interest is as follows:

	2020	2019
Fixed rate	731,868,318	730,258,287
Adjustable rate	5,471,409,351	5,529,408,560
Floating rate (Libor or Prime)	132,844,541	142,118,517
	6,336,122,210	6,401,785,364

Financial leasing

The balance of net financial leases and the maturity profile of minimum payments is summarized as follows:

	2020	2019
Less than 1 year	5,181,552	4,056,430
1 to 5 years	49,657,213	58,609,175
Total	54,838,765	62,665,605
Less: unearned interest	(8,839,525)	(9,587,520)
Total financial leases, net	45,999,240	53,078,085

Restructured loans

The restructuring activities include payment agreements, approved by external management plans and modification of the payment schedule. Restructuring policies and practices are based on indicators or criteria which, in Management's view, indicate that the payment will most likely continue. These policies are reviewed constantly.

As of June 30, 2020, restructured loans that would otherwise be overdue or impaired amount to B/.120,553,296 (2019: B/.163,841,165).

	2020	2019
Consumer:		
Personal loans	6,334,852	12,058,613
Mortgage	21,851,065	77,645,266
Corporate:		
Commercial	92,367,379	74,137,286
Total	120,553,296	163,841,165

The values shown in the above table do not include the loans modified under Agreement 2-2020 as part of the government relief measures and the voluntary and legal moratorium plans. (See Note 35).

11. Property, plant, equipment and improvements

	2020							
	Land	Property	Furniture and office equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At the beginning of the period	12,396,467	82,210,152	28,066,812	70,435,546	3,273,242	15,607,440	66,379,845	278,369,504
Acquisitions or purchases	71,937	138,589	74,250	1,048,318	594,150	975	12,497,463	14,425,682
Reclassifications	-	52,410,602	2,067,008	8,967,892	-	601,231	(64,046,733)	-
Sales and write-offs	-	(3,728)	(178,931)	(494,523)	(104,925)	(341,553)	-	(1,123,660)
At the end of the period	12,468,404	134,755,615	30,029,139	79,957,233	3,762,467	15,868,093	14,830,575	291,671,526
Accumulated depreciation and amortization:								
At the beginning of the year	-	16,797,029	14,923,798	40,235,040	2,279,049	4,013,636	-	78,248,552
Expense for the year	-	3,188,347	3,528,253	7,128,382	464,135	860,486	-	15,169,603
Sales and write-offs	-	(5,879)	(174,976)	(483,817)	(82,401)	(335,666)	-	(1,082,739)
At the end of the period	-	19,979,497	18,277,075	46,879,605	2,660,783	4,538,456	-	92,335,416
Net balances	12,468,404	114,776,118	11,752,064	33,077,628	1,101,684	11,329,637	14,830,575	199,336,110

	2019							
	Land	Property	Furniture and office equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At the beginning of the year	4,505,460	61,287,956	21,719,484	61,313,946	2,776,004	7,675,481	67,968,703	227,247,034
Acquisitions or purchases	-	2,904,515	416,566	2,070,577	537,410	1,870,120	11,899,456	19,698,644
Assets acquired from Banvivienda	7,891,007	17,574,300	2,046,730	3,862,700	78,071	6,179,645	-	37,632,453
Reclassifications	-	443,381	5,461,806	7,565,890	-	17,237	(13,488,314)	-
Sales and write-offs	-	-	(1,577,774)	(4,377,567)	(118,243)	(135,043)	-	(6,208,627)
At the end of the year	12,396,467	82,210,152	28,066,812	70,435,546	3,273,242	15,607,440	66,379,845	278,369,504
Accumulated depreciation and amortization:								
At the beginning of the year	-	14,295,471	13,354,555	37,747,315	1,944,506	2,276,986	-	69,618,833
Expense for the year	-	2,501,558	3,142,427	8,783,680	447,643	1,871,418	-	16,746,726
Sales and write-offs	-	-	(1,573,184)	(6,295,955)	(113,100)	(134,768)	-	(8,117,007)
At the end of the year	-	16,797,029	14,923,798	40,235,040	2,279,049	4,013,636	-	78,248,552
Net balances	12,396,467	65,413,123	13,143,014	30,200,506	994,193	11,593,804	66,379,845	200,120,952

12. Right-of-use assets and lease liabilities

a) Right-of-use assets

Right-of-use assets are presented below:

2020	Building and land
Cost:	
Balance at beginning of the year	-
Adjustment from adoption of IFRS 16	25,520,133
Increases in right-of-use assets	428,323
Balance at end of the year	25,948,456
Accumulated depreciation and amortization:	
Balance at beginning of the year	-
Expenses for the year	3,439,071
Balance at end of the year	3,439,071
Net balance	22,509,385

Amounts recognized in the consolidated statement of profit or loss:

	2020
Depreciation expenses in right-of-use assets	3,439,071
Interest expenses on lease liabilities	870,375
	4,309,446

b) Lease liabilities

The following table shows the maturity of contingent operating lease commitments under IAS 17 and their new application from the adoption of IFRS 16.

	Adoption of IFRS 16 2020
Up to 1 year	2,718,276
Between 1 and 5 years	7,266,914
5 years or more	13,526,382
Total	23,511,572

The Bank does not face significant liquidity risk with respect to its lease liabilities. Lease liabilities are maintained in accordance with the Bank's operation.

13. Other assets

	2020	2019
Accrued interest receivable	121,052,493	80,920,566
Goodwill (a)	92,014,817	91,695,403
Accounts receivable - National Treasury	59,934,102	79,311,376
Account receivable - related companies	44,162,235	39,358,565
Accounts receivable	43,360,371	38,739,766
Deferred income tax	33,894,103	25,878,425
Intangible assets (b)	22,461,470	24,004,810
Foreclosed assets	22,345,463	21,300,081
Prepaid expenses	16,682,779	19,711,111
Guarantee deposits	12,896,224	23,282,212
Insurance premiums receivable, net	10,831,126	12,810,310
Severance Fund	7,155,915	7,249,892
Tax credit - agrarian subsidy	4,170,801	4,283,129
Claims to insurance companies	3,504,654	2,009,565
Legal deposits	3,257,483	1,193,710
Claims to insurance companies	277,525	-
Derivative instrument	-	6,832,298
Others	8,654,690	12,261,200
	506,656,251	490,842,419

(a) Goodwill

The table below summarizes the balance of goodwill generated from the acquired interest in the following entities:

Acquisition date	Company acquired	% of interest acquired	2020	2019
June 1999	Banco Confederado de América Latina, S.A. (COLABANCO)	100%	8,330,187	8,330,187
December 2004	Afianzadora Colón, S.A.	100%	25,000	25,000
December 2014	PROGRESO - Administradora Nacional de Inversiones, Fondos de Pensiones y Cesantías, S.A.	100%	8,407,500	8,407,500
December 2018	Banco Panameño de la Vivienda, S.A. and Subsidiaries	99.972%	75,252,130	74,932,716
			92,014,817	91,695,403

(b) Intangible assets

	2020	2019
Cost:		
Right to manage HSBC's severance fund portfolio		
Investment Corporation (Panamá, S. A.)	1,389,963	1,389,963
Trademarks and other intangibles	8,454,809	8,454,809
Intangible assets from purchase of Banvivienda	15,500,000	15,500,000
	25,344,772	25,344,772
Accumulated amortization:		
Balance at the beginning of the year	(1,339,962)	(873,010)
Amortization	(1,543,340)	(466,952)
	(2,883,302)	(1,339,962)
Net balance at the end of the year	22,461,470	24,004,810

In order to check for impairment in goodwill or other intangible assets, a periodic valuation is made of the various assets (contracts, portfolios) or businesses acquired by the Bank that have generated such goodwill or intangible assets. The Bank mainly uses the model of discounted future cash flows from the corresponding assets or businesses or valuation alternative methods including business multiples profit or equity, depending on the case.

As of June 30, 2020 and 2019, there were no impairment losses in goodwill or intangible assets. The valuation, made using the method of net discounted future cash flows generated by the acquired assets or business, indicates that the present value of these exceeds the carrying value of goodwill or intangible assets.

To carry out the valuation of acquired assets and businesses, expected net cash flows of assets or businesses were projected for periods five years, and also an increase is defined in perpetuity or flow multiples at the end of the projected flow period to estimate the terminal flow. Growth rates in the assets or businesses fluctuate based on their nature, while the perpetual growth rates are between 0% and 3%.

- To determine the growth rates of the assets or businesses, we used as reference the real historical growth, performance, and metrics of the relevant assets or businesses, their future perspectives, the anticipated macroeconomic growth of the country which is between -2% and 5.5% during the five years of projection. Segments or businesses were evaluated, as well as the Bank's business plans and expected growth rates in general, and also for specific businesses under evaluation.

- To calculate the present value of future cash flows and determine the value of assets and businesses under assessment, the discount rate was used as the estimated average capital cost of the Bank for the periods referred to when the business unit assessed is the Bank. When the flows of asset funds or units are discounted with a profile different to the Bank, the cost of capital applicable to that activity is used in case it differs. The Bank’s cost of capital is based on the average interest rates at long-term of AAA instruments in dollars, of the country risk premium and of the return premium for applicable capital investments. The cost of capital used fluctuates between 11% and 13.5%, and changes over time.

- The key assumptions previously described may change as economic and market conditions change. The Bank estimates that the changes reasonably possible under these assumptions do not affect the recoverable amount of the business units or falls below the carrying value.

The amortization expense is presented in the consolidated statement of profit or loss in the item line of depreciation and amortization.

14. Client deposits

2020	Demand	Savings	Time	Total
Economic sector				
Corporate	356,160,833	359,635,978	2,288,966,949	3,004,763,760
Individual	83,272,133	678,872,001	1,332,094,137	2,094,238,271
	439,432,966	1,038,507,979	3,621,061,086	5,099,002,031
Geographic Sector				
Domestic	413,363,279	952,800,560	2,960,870,874	4,327,034,713
Foreign	26,069,687	85,707,419	660,190,212	771,967,318
	439,432,966	1,038,507,979	3,621,061,086	5,099,002,031

2019	Demand	Savings	Time	Total
Economic sector				
Corporate	389,696,097	352,338,780	2,082,266,611	2,824,301,488
Individual	78,863,489	608,790,399	1,319,425,088	2,007,078,976
	468,559,586	961,129,179	3,401,691,699	4,831,380,464
Geographic Sector				
Domestic	438,455,898	870,485,068	3,001,329,060	4,310,270,026
Foreign	30,103,688	90,644,111	400,362,639	521,110,438
	468,559,586	961,129,179	3,401,691,699	4,831,380,464

15. Obligations with financial institutions

	2020	2019
As of June 30, 2020, there are obligation with other banks for the financing of foreign trade, with multiple maturities until June 2021 and annual interest rates between 0.7656% and 3.7196% (2019: between 2.5509% and 4.5441%).	265,322,776	316,799,430
As of June 30, 2020, there are obligations with financial institutions for the management of short-term liquidity, with renewal maturities starting July 2020 and interest rates between 1.722% and 2.37%, reviewed quarterly (2019: between 2.1500% and 3.30%).	164,198,408	55,006,833
As of June 30, 2020, there are obligations with international organizations for handling long-term liquidity, with renewal maturities between August 2020 and June 2024 and interest rates between 1.18% and 4.599% (2019: between 3.960% and 6.151%).	197,888,904	218,231,830
As of June 30, 2020, there are obligations with foreign banks for working capital, with multiple maturities until March 2023 and annual interest rates between 1.47038% and 4.93213% (2019: between 4.05% and 4.93213%).	279,200,716	233,093,007
As of June 30, 2020, there is an obligation with a multilateral financial institution, with various terms and final maturities starting October 2020 until January 2027, interest rates range between 1.7424% and 3.775%, reviewed quarterly (2019: between 3.9241% and 4.723%).	167,511,968	97,481,597
	1,074,122,772	920,612,697

As of June 30, 2020, there are investments at fair value through other comprehensive income for B/.157,055,197 (2019: B/.34,991,892) and securities at amortized cost for B/.62,936,258 (2019: B/.35,239,338) which guarantee these obligations with financial institutions. Additionally, there are restricted time deposits as of June 30, 2020 for B/.4,674,208 (2019: B/.29,062,681), which guarantee these obligations with financial institutions.

The Bank is in compliance with the payments of principal and interest due, as well as with contractual clauses regarding their obligations and placements.

The movement of obligations with financial institutions is broken down as follows for the purpose of conciliation with the reconsolidated statement of cash flows:

	2020	2019
Balance at the beginning of the year	920,612,697	697,979,013
Obligations received as a result of acquisition of subsidiary	-	143,829,721
Obligations received	1,054,577,680	1,653,567,612
Payments made	(901,067,605)	(1,574,763,649)
Balance at the end of the year	1,074,122,772	920,612,697

16. Marketable securities (VCNs for their initials in Spanish)

Interest is paid on a monthly basis. The Bank cannot redeem the VCNs early. These VCNs are secured by the Bank's overall credit.

Series	Issuance date	Interest rate	Maturity	2020
C-V	jul-19	3.50%	jul-20	3,000,000
C-W	aug-19	3.50%	jul-20	1,000,000
C-X	aug-19	3.50%	aug-20	2,000,000
C-Y	sep-19	3.50%	sep-20	2,000,000
C-Z	oct-19	3.25%	oct-20	5,000,000
D-A	oct-19	3.00%	oct-20	2,000,000
D-B	nov-19	3.00%	nov-20	3,000,000
D-C	nov-19	3.00%	nov-20	2,000,000
D-D	mar-20	3.00%	mar-21	2,000,000
D-E	jun-20	3.00%	jun-21	1,300,000
				23,300,000

Series	Issuance date	Interest rate	Maturity	2019
C-M	jul-18	3.50%	jul-19	2,949,000
C-N	aug-18	3.50%	aug-19	5,000,000
C-O	sep-18	3.50%	sep-19	1,716,000
C-Q	mar-19	3.50%	mar-20	2,000,000
C-R	apr-19	3.00%	oct-19	3,000,000
C-S	may-19	3.50%	may-20	1,306,000
C-T	may-19	3.50%	may-20	1,000,000
C-U	jun-19	3.50%	jun-20	1,000,000
D-M	jan-19	3.75%	jul-19	1,000,000
D-N	jan-19	3.75%	jul-19	1,000,000
C-V	jul-18	4.00%	jul-19	500,000
C-X	ago-18	4.00%	jul-19	1,000,000
D-O	jan-19	3.75%	jul-19	1,943,000
D-P	feb-19	3.75%	aug-19	500,000
C-Z	aug-18	4.00%	aug-19	2,000,000
D-Q	feb-19	3.75%	aug-19	5,000,000
D-D	sep-18	4.00%	sep-19	420,000
D-S	mar-19	3.75%	sep-19	2,600,000
D-E	nov-18	4.00%	oct-19	1,000,000
D-F	nov-18	4.00%	nov-19	463,000
D-G	nov-18	4.00%	nov-19	1,500,000
D-R	feb-19	4.00%	feb-20	1,390,000
D-T	mar-19	4.00%	mar-20	838,000
C-G	jan-19	3.75%	jul-19	1,740,000
C-J	feb-19	3.75%	aug-19	1,218,000
C-K	feb-19	3.63%	aug-19	5,000,000
B-Z	sep-18	4.00%	sep-19	2,500,000
C-L	mar-19	3.75%	sep-19	1,410,000
C-B	nov-18	4.00%	nov-19	1,000,000
C-C	dec-18	4.00%	nov-19	5,000,000
C-H	jan-19	4.00%	jan-20	632,000
C-I	feb-19	4.00%	feb-20	1,784,000
				59,409,000

The movement of marketable securities is broken down as follows for the purpose of reconciliation with the consolidated statement of cash flows:

	2020	2019
Balance at the beginning of the year	59,409,000	20,658,000
Proceeds from acquisition of subsidiary	-	80,641,847
Proceeds from issuance	23,300,000	58,115,119
Redemptions	(59,409,000)	(100,005,966)
Balance at the end of the year	23,300,000	59,409,000

17. Corporate bonds

Type	Interest rate	Maturity	2020	2019
A Series - October 2014 Issuance	5.13%	oct-19	-	305,295,187
A Series - October 2016 Issuance	4.50%	oct-21	626,976,592	683,525,138
B Series - August 2015 Issuance	4.75%	aug-19	-	34,899,293
C Series - August 2015 Issuance	5.13%	aug-20	34,979,312	34,859,071
A Series - August 2018 Issuance	5.00%	aug-21	29,752,358	29,552,856
B Series - August 2018 Issuance	5.25%	aug-22	24,557,594	24,446,672
C Series - August 2018 Issuance	5.50%	aug-23	34,584,709	34,468,877
A Series - April 2019 Issuance	5.25%	apr-29	382,778,410	295,214,304
			1,133,628,975	1,442,261,398

The seniority and collateral granted by the Bank for these issuances are described below:

October 2014 Issuance – The bonds of this issuance constitute direct, unconditional and unsecured obligations.

October 2016 Issuance – The bonds of this issuance constitute direct, unconditional and unsecured obligations.

August 2015 Issuance – The bond issuance is guaranteed through a Guarantee Trust with the Fiduciary Agent in whose favor Mortgage Loans with a total value that must cover at least 120% of the Unpaid Capital Balance of Issued and Outstanding Bonds will be transferred. Interest is payable quarterly and the principal of the bonds at maturity.

August 2018 Issuance – The bond issuance is guaranteed through a Guarantee Trust with the Fiduciary Agent in whose favor Mortgage Loans with a total value that must cover at least 120% of the Unpaid Capital Balance of Issued and Outstanding Bonds will be transferred. Interest is payable quarterly and the principal of the bonds at maturity.

April 2019 Issuance – The bonds of this issuance constitute direct, unconditional and unsecured obligations. The coupon is paid semiannually at a fixed rate and changes at a variable rate of 3 months plus 3.30% spread in the last year of the issuance.

The Bank arranged interest rate and exchange rate swaps on bonds, which qualify as fair value hedge. As of June 30, 2020, the net fair value of the hedged instrument was B/.8,105,718.

As of June 30, 2020, there are corporate bonds that maintain loan guarantees in trust for a total of B/.196,436,317. (See Note 10).

18. Subordinated bonds

For each issuance series there is a single principal payment on the maturity date of each series or until their early redemption. Subordinated bonds are unsecured, without special privileges as to priority and backed only by the Bank's overall credit.

Type	Interest rate	Maturity	2020	2019
A Series - August 2010 Issuance	6.75%	aug-70	554,000	554,000
B Series - November 210 Issuance	6.75%	aug-70	3,037,514	3,034,933
C Series - December 2010 Issuance	6.75%	aug-70	3,421,555	3,418,647
D Series - May 2011 Issuance	6.75%	aug-70	270,000	270,000
E Series - October 2014 Issuance	6.75%	aug-70	615,000	615,000
			7,898,069	7,892,580

19. Perpetual bonds

Perpetual bonds of any series are unsecured and can be redeemed, totally or partially, at the Issuer's choice staring from the sixth year after the issuance date of the respective series.

Type	Interest rate	2020	2019
A Series - May 2016 Issuance	6.75%	23,867,621	23,828,043
B Series - July 2016 Issuance	6.75%	90,407,551	90,839,484
C Series - May 2018 Issuance	6.75%	5,490,000	3,592,000
D Series - May 2019 Issuance	6.75%	16,563,202	9,400,183
E Series - June 2020 Issuance	6.75%	761,000	-
		137,089,374	127,659,710

The movement of corporate, subordinated and perpetual bonds is broken down as follows for the purpose of reconciliation with the consolidated statement of cash flows:

	2020	2019
Balance at the beginning of the year	1,577,813,688	1,416,923,553
Proceeds from acquisition of subsidiary	-	149,063,524
Proceeds from issuances	93,235,000	324,857,102
Debt issuance cost / amortization of debt issuance cost	3,337,427	(1,891,550)
Redemptions	(409,897,000)	(340,932,184)
Valuation	8,105,718	30,605,615
Premiums, discounts / discount premium amortization	6,021,585	(812,372)
Balance at the end of the year	1,278,616,418	1,577,813,688

20. Other liabilities

	2020	2019
Accrued interest payable	53,637,207	51,532,280
Creditors others	28,822,572	28,811,393
Employee benefits and other labor liabilities	16,362,218	16,444,640
Reserve of insurance operations	15,394,048	15,080,573
Cashiers´ and certified checks	11,066,166	31,329,318
Other reserves	9,148,122	8,025,043
Factoring guarantee deposits	7,619,668	8,120,750
Legal and other deposits	3,116,436	6,030,790
Accounts payable - Insurance	2,288,094	2,404,254
Special Interest Offsetting Fund (FECI) payable	1,512,865	1,911,600
Income tax payable	513,098	34,639
Pending acceptances	277,525	-
Hedge derivative (a)	-	8,105,718
Others	13,074,065	7,492,780
	162,832,084	185,323,778

a) Hedge Derivatives

To reduce its credit risk related to these agreements, the Bank uses solid institutions with great financial strength as counterparts. These agreements are recorded at fair value in the consolidated statement of financial positions using fair value or cash flows methods (“fair value hedge” or “cash flow hedge”), under other assets and other liabilities as applicable.

Fair value hedge

To manage its position in the Bank's consolidated statement of financial position, “interest rate swap” contracts have been entered into on B/.550,000,000 corporate bonds that allow the conversion of fixed interest rates into floating interest rates during each payment period.

As of June 30, 2020, the Bank made an early cancellation of the interest rate swap contract for a total nominal amount of B/.550,000,000 with a net effect on results of (B/.941,419).

The following is a summary of the derivative contracts by maturity date and account methods:

	2019 Remaining maturity of par value		
Accounting method	More than 1 year	Less than 1 year	Total
Fair value	550,000,000	306,344,000	856,344,000
Total	550,000,000	306,344,000	856,344,000

The estimated par value and fair value of the derivative instruments are presented in the table below. The fair value of the derivative financial instruments is estimated using internal valuation techniques with observable market data.

	2019	
Type	Par value	Fair value
Fair value hedge derivates (for financings)	856,344,000	(8,105,718)
Total	856,344,000	(8,105,718)

For cash flow hedges, the effective portion of gains or losses arising from changes in the fair value of the derivative hedge instrument is included under net changes in hedge instruments. The ineffective portion (indicated by the excess of the cumulative change in fair value of the necessary amount needed to offset the cumulative changes in expected future cash flows from hedge transactions) is included in other income (expenses). During the period, the hedge was highly effective in covering the risk of variability in interest rates that could affect the cash flows of the Bank.

For derivative fair value hedge instruments, the gains or losses arising from changes in fair value of the derivative instrument, including the risk of default as part of the hedged item attributable to the hedged risk, are included in other income (expenses).

b) Clients' and other withheld guarantees

Clients' withheld guarantees payable consists of a percentage value of each discounted invoice withheld until the time the payment is collected. If, at the end of the contract, the invoice becomes uncollectible, the Bank will decrease the amount receivable by the balance of the factoring guarantee deposit of the related transaction.

21. Reserves for insurance operations

Unearned premiums	**2020**	**2019**
Balance at beginning of the year	7,736,732	6,210,542
Premiums issued	32,813,415	30,265,500
Premiums earned	(18,144,711)	(14,153,715)
Balance at end of the year	22,405,436	22,322,327
Participation of reinsurers		
Premiums ceded	(12,250,052)	(14,585,595)
Unearned premiums	(1,108,593)	2,974,915
Unearned premiums, net	9,046,791	10,711,647
Pending claims to be settled, estimates	**2020**	**2019**
Balance at beginning of the year	4,368,926	4,954,175
Claims incurred, net	11,856,946	12,363,068
Claims paid	(9,878,615)	(12,948,317)
Balance at end of the year	6,347,257	4,368,926
	15,394,048	15,080,573

The reserves of insurance operations have been certified by an independent actuary of the Bank.

22. Common shares

As of June 30, 2020, the authorized share capital of Global Bank Corporation is comprised of 2,000,000 common shares with no par value, of which 236,600 (2019: 236,600) shares are issued and outstanding worth B/.270,202,657 (2019: B/.270,202,657).

As of June 30, 2020, a total of B/.33,772,382 (2019: B/.27,576,380) was paid as dividends on common shares approved by the Board of Directors.

23. Interest and commission income and expenses

	2020	2019
Interest earned on:		
Loans	429,308,754	387,653,151
Deposits	6,217,287	7,949,308
Investments	38,260,462	37,041,130
	473,786,503	432,643,589
Interest expenses on:		
Deposits	(176,414,047)	(145,957,488)
Obligations with financial institutions and repurchase agreements	(37,361,711)	(35,315,169)
Marketable securities and bonds	(83,242,698)	(95,187,137)
	(297,018,456)	(276,459,794)
Net interest income	176,768,047	156,183,795
Commissions earned on:		
Loans	26,309,236	26,858,066
Letters of credit	2,389,873	3,265,069
Savings accounts and debit cards	5,404,331	5,988,498
Fiduciary and management services	10,106,646	10,046,509
Others	10,932,737	13,383,592
	55,142,823	59,541,734
Commission expenses	(15,046,610)	(14,066,270)
Net commission income	40,096,213	45,475,464
Net interest and commission income	216,864,260	201,659,259

24. Other income, net

	2020	2019
Insurance premiums, net	12,831,854	11,002,631
Net gain on sale of securities	7,409,280	834,108
Fiduciary and brokerage services, net	233,662	279,383
(Loss) gain on instruments at fair value through profit or loss	(197,518)	12,226
Net loss on derivative financial instruments	(7,720,145)	(1,624,130)
Other income (expenses)	3,480,158	(84,677)
	16,037,291	10,419,541

25. Other expenses

	2020	2019
Reserve for redemtion of miles	3,456,096	2,025,762
Communications and correspondance	2,160,357	2,447,161
Surveillance	2,072,223	2,258,296
Public utilities	1,843,235	1,933,157
Utilities	696,292	851,332
Insurance	160,903	204,343
Other operating expenses	6,611,112	8,623,235
Other general expenses	7,366,144	7,086,202
	24,366,362	25,429,488

Operating lease agreements

For the year ended June 30, 2019, rental payments were for B/.5,972,039.

26. Excess paid-in capital – Share option plan for employees

As of June 30, 2020, key executive officers held stock options over 71,672 common shares of the Parent Company (G.B. Group Corporation) (2019: 91,232), of which 33,016 shares may be exercised in 2020; 20,099 may be exercised in 2021 and 18,557 may be exercised in 2022 with an average execution price of B/.39.89 as of June 30, 2020 (2019: B/.40.44). The Bank recognized income for B/.515,030 (2019: B/.188,520) in the consolidated statement of profit or loss under miscellaneous income (2019: other personnel expenses) and the corresponding entry in equity, which reflects the contribution of capital it will receive from its Parent Company.

27. Commitments and contingencies

The Bank maintains financial instruments outside the consolidated statement of financial position with credit risks arising in the normal course of business, which involves elements of credit and liquidity risk. Such financial instruments include commercial letters of credit, granted endorsements and guarantees and promissory notes, which are summarized as follows:

	2020	2019
Letters of credit	102,177,552	103,962,439
Endorsements and guarantees	453,158,568	480,973,681
Promissory notes	231,749,808	291,308,678
Unused credit lines	439,087,347	510,768,024
Total	1,226,173,275	1,387,012,822

Commercial letters of credit guarantees issued and loan commitments include exposure to some credit loss in the event of default by the customer. The Bank's credit policies and procedures to approve credit commitments and financial guarantees are the same as those for granting of loans that are recorded on the consolidated statement of financial position.

Guarantees issued have fixed maturity dates and most expire without being drawn upon, and therefore, they generally do not represent a significant liquidity risk to the Bank. With respect to the commercial letters of credit, most are used; however, the majority are on-demand and paid immediately.

Promissory notes represent conditional promises accepted by the Bank, once certain conditions have been met, which have an average maturity of six months and are used basically for disbursements of mortgage loans. The Bank does not anticipate losses as a result of these transactions.

28. Management of trust contracts and investment portfolio

As of June 30, 2020, the Bank held trust contracts at the client's risk that amounted to B/.2,868,011,581 (2019: B/.3,100,816,513).

	2020	2019
Guarantee Trust	2,715,252,110	2,935,977,206
Investment Trust	95,257,902	103,442,637
Management Trust	53,418,175	55,065,616
Pension Trust	2,934,612	3,170,374
Assets - PLICA contract	574,021	2,611,046
Testamentary Trust	574,761	549,634
	2,868,011,581	3,100,816,513

Considering the nature of these services, Management believes there is no risk for the Bank.

29. Management of pension and severance funds

	2020	2019
Severance Fund	287,721,156	273,382,734
Pension Fund (under Law No. 10)	219,099,700	220,857,932
Citibank, N. A.	3,544,223	4,238,540
Pribanco and Conase Plus	258,959	367,612
Bipan Plus	71,140	71,018
Other assets under management	25,959,515	18,534,363
	536,654,693	517,452,199

30. Income tax

Income tax returns for the last three years of banks incorporated in the Republic of Panama are subject to examination by the tax authorities, including for the year ended June 30, 2020, according to current fiscal regulations.

According to current Panamanian tax legislation, banks are exempt from payment of income tax on profits derived from foreign operations, interest earned on time deposits placed in local banks, interest earned on Panamanian Government securities and securities issued through Panama's Stock Exchange

The subsidiaries Global Capital Investment Corp., Global Bank Overseas and Banvivienda Assets are not subject to income tax payment in their respective jurisdictions, due to the nature of their foreign operations; however, the income tax on operations that generate taxable income in other jurisdictions is classified within the income tax expense.

As of January 1, 2010, by means of Law No.8 of March 15, 2010, Article No.699 of the Tax Code states that all legal entities whose annual income exceeds one million five hundred thousand balboas (B/.1,500,000) must pay an income tax calculated at 25% on whichever amount is greater: (1) the net taxable income calculated by the standard method established in Title I of the Fourth Book of the Tax Code, or (2) the net taxable income resulting from multiplying the total taxable income by four point sixty-seven percent (4.67%).

The current income tax is broken down as follows:

	2020	2019
Current income tax	3,719,979	2,993,545
Deferred tax for temporary differences	(8,335,092)	(2,590,718)
Income tax	(4,615,113)	402,827

The current income tax's average effective rate is 9.87% (2019: 6.45%).

The tax effect item that comprises the deferred tax asset included in the consolidated statement of financial position, is the reserve for possible loans losses and the goodwill tax effect, which is broken down below:

	2020	2019
Balance at the beginning of the year	25,878,425	11,517,322
Effect of acquisition of subsidiary	-	2,680,740
Effect of IFRS implementation	108,010	9,089,645
Other charges	(427,424)	-
Credit to profit or loss during the year	8,335,092	2,590,718
Balance at the end of the year	33,894,103	25,878,425

Deferred assets are recognized based on the deductible tax differences considering their past operations and projected taxable profits, which are influenced by Management's estimates. Based on current and projected results, the Bank's Management considers that there will be sufficient taxable income to absorb the deferred income tax previously described.

A reconciliation of income tax is shown below:

	2020	2019
Profit before income tax	37,687,090	46,390,938
Less: non-taxable income	(140,944,835)	(92,277,744)
Plus: non-deductible expenses	118,126,161	53,016,599
Plus: tax loss in subsidiaries	3,031	4,814,654
Taxable base	14,871,447	11,944,447
Income tax calculated at 25%	3,717,863	2,986,112
Remittance income tax	2,116	7,433
Income tax expense	3,719,979	2,993,545

The deferred income tax asset is broken down as follows:

	2020	2019
Deferred income tax asset:		
Provision for expected losses	37,266,587	29,753,425
Deferred taxes from acquired intangible asset - core deposit	(3,498,264)	(3,875,000)
Others	125,780	-
Deferred income tax asset	33,894,103	25,878,425

The reconciliation of the deferred income tax from the previous year with the one for the current year is as shown below:

	2019	Charged to Profit or Loss	IFRS adoption	Proceeds from the acquisition of subsidiaries and other charges	2020
Deferred income tax asset:					
Provision for expected losses	29,753,425	7,513,162	-	-	37,266,587
Acquired intangible - core deposit	(3,875,000)	376,736	-	-	(3,498,264)
Others	-	445,194	108,010	(427,424)	125,780
Deferred income tax asset	25,878,425	8,335,092	108,010	(427,424)	33,894,103

	2018	Charged to Profit or Loss	IFRS adoption	Proceed from the acquisition of subsidiaries	2019
Deferred income tax asset:					
Provision for expected losses	11,517,322	2,590,718	9,089,645	6,555,740	29,753,425
Acquired intangible - core deposit	-	-	-	(3,875,000)	(3,875,000)
Deferred income tax asset	11,517,322	2,590,718	9,089,645	2,680,740	25,878,425

Transfer pricing:

On August 29, 2012, Law No.52 entered into force, reforming regulations on transfer pricing, a price regime oriented to regulate transactions for tax purposes between related parties, so that the considerations between them are similar to those made between third parties. According to those rules, taxpayers carrying out transactions with related parties that have an impact on income, costs or deductions for determining taxable income for purposes of income tax for the fiscal period to be declared or the transaction taking place, must prepare an annual report on the operations performed within six months following the termination of the relevant tax period (Form 930). These transactions are subject to a review in order to verify that they meet the assumptions established in the Law.

At the date of these consolidated financial statements, the Bank is in the process of contemplating such an analysis, but according to Management, it is not expected that it will have a significant impact on the estimated income tax for the period.

31. Segment information

Management has prepared the following segment information based on the Bank's businesses for financial analysis:

2020

	Banking and financial activities	Insurance	Pension and severance funds	Total consolidated
Interest and commission income	518,897,127	1,550,427	8,481,772	528,929,326
Interest expenses and provisions	375,245,599	212,092	(618)	375,457,073
Other income, net	2,898,867	12,937,249	201,175	16,037,291
Other expenses	103,447,626	5,492,475	2,730,339	111,670,440
Depreciation and amortization expense	19,946,546	15,618	189,850	20,152,014
Profit before income tax	23,156,223	8,767,491	5,763,376	37,687,090
Income tax	(7,686,879)	1,885,549	1,186,217	(4,615,113)
Net profit	30,843,102	6,881,942	4,577,159	42,302,203
Total assets	8,434,744,643	55,874,115	25,507,972	8,516,126,730
Total liabilities	7,705,000,563	28,603,856	545,640	7,734,150,059

2019

	Banking and financial activities	Insurance	Pension and severance funds	Total consolidated
Interest and commission income	482,539,856	1,544,811	8,100,656	492,185,323
Interest expenses and provisions	319,652,033	127,531	(3,095)	319,776,469
Other income, net	(904,261)	11,002,631	321,171	10,419,541
Other expenses	110,789,798	5,953,204	2,947,729	119,690,731
Depreciation and amortization expense	16,607,053	22,954	116,719	16,746,726
Profit before income tax	34,586,711	6,443,753	5,360,474	46,390,938
Income tax	(2,125,311)	1,366,795	1,161,343	402,827
Net profit	36,712,022	5,076,958	4,199,131	45,988,111
Total assets	8,351,151,657	47,494,910	21,263,094	8,419,909,661
Total liabilities	7,612,481,035	27,707,057	701,740	7,640,889,832

32. Acquisitions

GB AV, Inc. acquired and took control of the consumer, commercial and related operations of the entity Banco Panameño de la Vivienda, S.A. ("Banvivienda") and subsidiaries as of December 1, 2018. Said acquisition was made through the purchase of 99.972% of the registered shares of these companies.

The acquisition was made to expand and consolidate the Bank's leadership position, for which GB AV, Inc. made payments in the amount of B/.222,932,786. The amount paid was made through: (a) cash transfers worth B/.142,932,786; (b) issuance of shares for 60,000,000 (c) deposits in an escrow account worth B/.20,000,000. In addition, during the year ended June 30, 2019 and as a result of the due diligence process, the Bank required the seller to reimburse the amounts of B/.1,277,654 and B/.7,210,181, respectively, which are presented in the accounts receivable item of other assets in Note 13. Consequently, the net value paid for the transaction, after the adjustments, was B/.214,444,951.

The results of the acquired operations from acquired businesses for which the Bank has obtained control have been included in the consolidated financial statements.

	2019
Assets:	
Cash and bank deposits	324,550,158
Investments in securities	71,926,980
Loan portfolio	1,352,766,741
Property, furniture and equipment	37,632,453
Other assets	131,623,244
Total assets	1,918,499,576
Liabilities:	
Deposits	1,368,102,539
Other liabilities	423,258,424
Total liabilities	1,791,360,963
Assets at fair value before intangibles	127,138,613
Complementary tax	748,542
Identified intangible assets	15,500,000
Associated deferred income tax	(3,875,000)
Net assets acquired	139,512,155
Purchase price paid	222,932,706
Adjustment to purchase price - account receivable from seller	(7,210,181)
GMT Group Reimbursement - BNP Paribas Case	(1,277,654)
Goodwill	(74,932,716)

The net cash flows from the acquisition are as follows:

Compensation paid in cash	154,444,951
Cash and cash equivalents acquired	(285,578,514)
	(131,133,563)

33. Bank subsidiaries

The following is a breakdown of the Bank's subsidiaries, their main economic activity, date of incorporation, beginning of operations, country of incorporation and percentage of ownership of these companies:

Companies	Main economic activity	Date of incorporation	Beginning of operations	Country of incorporation	Percentage of ownership
Factor Global, Inc.	Purchase of discounted invoices - factoring	dec-95	1995	Panama	100%
Global Financial Funds Corporation	Trust funds	sep-95	1995	Panama	100%
Global Capital Corporation	Corporate finance and financial advisory	may-93	1994	Panama	100%
Global Capital Investment Corporation	Purchase of discounted invoices - factoring	jun-93	1993	British Virgin Island	100%
Global Valores, S. A.	Stock brokers	aug-02	2002	Panama	100%
Global Bank Overseas and Subsidiaries	Foreign banking	aug-03	2003	Montserrat	100%
Aseguradora Global, S. A.	Subscription and issuance of insurance policies	apr-03	2004	Panama	100%
Durale Holdings, S. A.	Ownership and management of real estate	jan-06	2006	Panama	100%
Progreso, S. A.	Trust fund management	oct-98	2014	Panama	100%
Anverli Investments Corporation	Ownership and management of real estate	jan-17	2017	Panama	100%
Banvivienda Assets	Asset management	may-13	2013	Grand Cayman Island	100%
Banvivienda Leasing & Factoring	Financial leasing	oct-06	2007	Panama	100%

34. Regulatory aspects

The following is a breakdown of the regulatory reserves:

	2020	2019
Banking reserves		
Dynamic reserve	87,863,198	87,863,198
Foreclosed assets reserve	9,469,118	8,054,532
Equity reserve - uncollectible loans	460,578	-
Insurance reserves		
Technical reserve	3,426,184	2,516,034
Regulatory reserve	5,749,193	5,749,193
	106,968,271	104,182,957

Agreement 4-2013

The classification of the loan portfolio and reserves for loan losses based on Agreement 4-2013:

2020

	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	2,764,769,258	320,889,533	77,378,902	39,834,797	52,938,779	3,255,811,269
Consumer loans	2,747,694,027	124,188,361	14,758,403	13,419,612	43,885,895	2,943,946,298
Other loans	136,364,643	-	-	-	-	136,364,643
Total	5,648,827,928	445,077,894	92,137,305	53,254,409	96,824,674	6,336,122,210
Specific reserve	-	20,525,755	8,221,093	15,784,851	38,493,510	83,025,209

2019

	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	3,027,974,396	208,117,272	87,159,365	17,654,894	52,844,818	3,393,750,745
Consumer loans	2,708,746,791	114,208,902	17,704,443	22,406,863	34,922,915	2,897,989,914
Other loans	110,044,705	-	-	-	-	110,044,705
Total	5,846,765,892	322,326,174	104,863,808	40,061,757	87,767,733	6,401,785,364
Specific reserve	-	15,035,081	14,635,836	10,182,051	39,328,804	79,181,772

The classification of the loan portfolio by maturity profile based on Agreement 4-2013 is as follows:

2020

	Current	Delinquent	Overdue	Total
Corporate	3,173,917,998	13,703,895	68,189,376	3,255,811,269
Consumer	2,827,090,315	56,653,201	60,202,782	2,943,946,298
Others	136,364,643	-	-	136,364,643
Total	6,137,372,956	70,357,096	128,392,158	6,336,122,210

2019

	Current	Delinquent	Overdue	Total
Corporate	3,326,329,764	3,375,970	64,045,011	3,393,750,745
Consumer	2,745,949,458	86,915,412	65,125,044	2,897,989,914
Others	110,044,705	-	-	110,044,705
Total	6,182,323,927	90,291,382	129,170,055	6,401,785,364

As of June 30, 2020, loans that do not accrue interest represented an amount of B/.106,370,455 (2019: B/.117,033,002).

Dynamic reserve

Accounting treatment for differences between prudential standards and IFRSs

As indicated in Note 2, the Bank adopted IFRSs for the preparation of its accounting records and the presentation of its consolidated financial statements. According to General Board Resolution SBP GJD-0003-2013, the accounting treatment of the differences between IFRS and prudential standards based on the following methodology is established.

- The respective figures for the calculations of the application of IFRS and prudential regulations issued by the Superintendency of Banks of Panama (SBP) will be made and compared.

- When the calculation performed in accordance with IFRSs results in a reserve resulting greater than the one resulting from the use of prudential standards, the IFRS figures will be recorded.

- When using prudential standards result in a higher reserve, IFRS figures will also be recorded in profit and loss and the difference will appropriate retained earnings, which will be moved to a regulatory reserve in equity. If the Bank does not have sufficient retained earnings, this difference will be presented as an accumulated deficit account.

- The regulatory reserve referred to in the preceding paragraph cannot be reversed against retained earnings while there are differences between IFRSs and prudential rules that originated it.

According to Agreement 4-2013, the restrictions on the dynamic reserve establish that the amount cannot be less that the amount established for the previous quarter. As of June 30, 2020, the calculation of the dynamic provision was for B/.68,170,005 (2019: B/.87,863,198); however, since the results of the calculation amount of the dynamic provision is lower than last year, it shows no change with respect to the previous year.

By means of General Resolution SBP-GJD-0007-2020 of the Board of Directors dated July 16, 2020, in Article 1 the obligation to constitute the dynamic provision established in Articles 36, 37 and 38 of Agreement 4-2013 on credit risk is temporarily suspended, in order to provide financial relief to the banks in this market. It also provides that this measure will be applicable based on the information corresponding to the second quarter of 2020 (April, May and June).

Off-balance sheet operations

The Bank has classified off-balance sheet operations and required reserves based on Agreement No.4-2013 issued by the Superintendency of Banks of Panama and is shown below:

2020	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	102,177,552	-	-	-	-	102,177,552
Endorsements and guarantees	453,158,568	-	-	-	-	453,158,568
Promissory notes	231,749,808	-	-	-	-	231,749,808
Unused credit lines	439,087,347	-	-	-	-	439,087,347
Total	1,226,173,275	-	-	-	-	1,226,173,275

2019	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	103,962,439	-	-	-	-	103,962,439
Endorsements and guarantees	480,973,681	-	-	-	-	480,973,681
Promissory notes	291,308,678	-	-	-	-	291,308,678
Unused credit lines	510,768,024	-	-	-	-	510,768,024
Total	1,387,012,822	-	-	-	-	1,387,012,822

Letters of credit, guarantees issued and promissory notes are exposed to credit losses in the event that the customer does not fulfill its payment obligations. Policies and procedures for approving credit commitments, financial guarantees and promissory notes are the same as those used for granting loans recorded on the consolidated statement of financial position.

Most letters of credit are used; however, most of those used are on demand and their payment is immediate.

Credit lines for customer disbursements correspond to outstanding guaranteed loans, which are not shown in the consolidated statement of financial position, but are recorded in the Bank's memorandum accounts.

Foreclosed assets

As of June 30, 2020, the regulatory reserve on foreclosed assets totals B/.9,469,118 (2019: B/.8,054,532) based on what is established in Agreement 3-2009 of the Superintendency of Banks of Panama.

Premiums and notes receivable

Article No.156 of Law No.12 of April 3, 2012, establishes:

a) Suspension of coverage: when the contractor has made the payment of the first premium installment and is delayed by more than the grace period stipulated in the payment of any subsequent premium installments, in accordance to the payment Schedule established in the corresponding policy, it will be understood to have incurred in the default of payment, which will have the immediate legal effect of suspending the policy's coverage for up to sixty days.

b) The suspension of coverage shall remain until the contractor makes the overdue payments, enabling the reestablishment of the policy's coverage from the moment of the premium payments for said period are made, or until the policy has been cancelled in accordance with the reserve of Article No.161.

Article No.161 of Law No.12 of April 3, 2012 specifies:

a) Any policy cancellation notice shall be sent to the contractor at the last physical, postal or electronic address that appears in the policy file kept by the insurance company. A copy of the cancellation notice must be issued to the insurance broker.

b) Any change in the contractor's address must be notified to the insurance Company; otherwise, the last address on the insurance company's file will remain as the valid address.

c) The cancellation notice of the policy for non-compliance with premium payments must be sent to the contractor in writing, fifteen business days in advance. If the notice is not sent, the contract will remain in force and the reserve in Article No.998 of the Commercial Code will apply.

Technical reserves

Pursuant to Law No.12 of April 3, 2012, the subsidiary Aseguradora Global, S.A. transferred from liability to equity the reserve for statistical deviations and the reserve for catastrophic risk and/or contingencies.

Assets admitted free of encumbrances must cover such capital reserves.

Such reserved shall be cumulative. The Superintendency of Insurance and Reinsurance of Panama will regulate their use and restitution when the claim rate shows adverse results.

	Reserve for statistical deviations		Reserve for catastrophic risk and/or contingencies	
	2020	2019	2020	2019
Balance at the beginning of the year	1,258,018	866,020	1,258,018	866,020
Additions	455,074	391,997	455,074	391,997
Balance at the end of the year	1,713,092	1,258,017	1,713,092	1,258,017

Regulatory Reserve

The regulatory reserve of the subsidiary Aseguradora Global, S.A. has been established in accordance with the regulations in Article No.213 of Law No.12 of April 3, 2012, which established the following:

Insurance companies are required to create and maintain a reserve fund within the country equivalent to 20% of net profit before income tax, until constituting a fund of B/.2,000,000; after this amount has been reached, 10% must be allocated until it reaches 50% of the paid-in capital.

The movement of the regulatory reserve is as follows:

	2020	**2019**
Balance at the beginning of the year	5,749,193	5,358,702
Additions	-	390,491
Balance at the end of the year	5,749,193	5,749,193

Laws and Regulations:

a) Banking Law

In the Republic of Panama, banks are regulated by the Superintendency of Banks of Panama, through Executive Decree No.52 of April 30, 2008, which adopts the sole text of Decree Law No.9 of February 26, 1998, as amended by Decree Law No.2 of February 22, 2008, as well as Resolutions and Agreements issued by that entity. The main aspects of this law include: authorization of bank licenses, minimum capital and liquidity requirements, consolidated supervision, credit and market risk management procedures, anti-money laundering procedures, banking intervention and liquidation procedures, among other. Likewise, the banks will be subject to at least one inspection every two (2) years by the auditors of Superintendency of Banks of Panama, to determine their compliance with the reserve of Executive Decree No. 52 of April 30, 2008 and Law No. 42 of October 2, 2000, the latter on the prevention of money laundering.

Compliance with the regulatory body

Liquidity ratio

As of June 30, 2020, the percentage of the liquidity ratio reported to the regulatory entity, under the parameters of Agreement 4-2008 was 50.27% (2019: 56.48%) (See Note 4.3).

Capital Adequacy

The Law demands that Banks with a general license must have a minimum paid-in capital or assigned capital of ten million balboas (B/.10,000,000) and equity funds of no less than 8% of their weighted assets, including off-balance sheet operations. As of June 30, 2020, it has consolidated equity funds of approximately 14.58% (2019: 13.96%) of its risk-weighted assets, in accordance with Agreement 1-2015 and Agreement 3-2016 and the new agreements: Agreement 11-2018 and Agreement 2-2018. (See Note 4.7).

As a consequence of the effects of the global health COVID-19 pandemic decreed by the World Health Organization (WHO), the need and convenience of establishing special temporary measures such as the validity of the appraisal reports used for the constitution of guarantees on movable and immovable goods has been revealed through the General Resolution SBP-GJD-0004-2020 of the Board of Directors. Additionally, for the purposes of Article 2 of Agreement 3-2016, all risk assets classified in categories 7 and 8, whose weighting is 125% and 150% respectively, will be temporarily weighted as part of category 6, whose weighting is 100% by means of General Resolution SBP-GJD-0005-2020 of the Board of Directors.

The accounting treatment for the recognition of loan losses, investment securities and foreclosed assets of borrowers in accordance with the prudential standards issued by the Superintendency of Banks of Panama, differs in certain aspects from the accounting treatment under the International Financial Reporting Standards, specifically IAS 39 and IFRS 5. The Superintendency of Banks of Panama requires that general license banks apply these prudential standards.

b) Insurance and reinsurance Law

Insurance and reinsurance operations in Panama are regulated by the Superintendency of Insurance and Reinsurance of Panama in accordance with the legislation established by the Insurance Law No. 12 of April 3, 2012 and the Reinsurance Law No. 63 of September 19, 1996.

c) Securities Law

Stock Exchange operations in Panama are regulated by the Superintendency of Securities Market of Panama in accordance with the legislation established in Decree Law No.1 of July 8, 1999, amended by Law No.67 of September 1, 2011. The operations of the Stock Exchange are in the process of being aligned with Agreement 4-2011, modifying certain reserve through Agreement 8-2013, established by the Superintendency of Securities Market of Panama, which indicate that these are required to comply with the capital adequacy standards and its modalities.

d) Trust Law

Trust operations in Panama are regulated by the Superintendency of Banks of Panama in accordance with the legislation established in Law No.1 of January 5, 1984.

e) Financial Leasing Law

Financial leasing operations in Panama are regulated by the Directorate of Financial Companies of the Ministry of Commerce and Industries in accordance with the legislation established in Law No. 7 of July 10, 1990

35. COVID-19 effect

The appearance of the Coronavirus COVID-19 in China at the end of 2019 and its recent global expansion to a large number of countries, has caused the viral outbreak to be qualified as a pandemic by the World Health Organization since March 11, 2020.

As a result of this global affectation and its respective arrival in our country, the Government decreed a national state of emergency. The decree established a quarantine with limited citizen circulation and a closure of a large part of the economy. The operation of all businesses and industries was divided into 6 blocks; as of June 30th, only businesses in block 1 and 2 were allowed to operate.

The COVID-19 outbreak has significantly affected the Panamanian economy at macro and micro levels. This impact may negatively affect the Bank's operational results. Likewise, the Bank is exposed to the performance of its clients, whose consumer loans and commercial operations have been affected by the closure of the economy as a measure to control the spread of the virus. Loan defaults that negatively affect the Bank's earnings, correlate with deteriorating economic conditions (such as unemployment rates and business closures).

The Bank's financial position and results of operations depend particularly on the borrowers' ability to meet their credit obligations. While its effects continue to materialize, the COVID-19 pandemic has resulted in a significant decline in business activity throughout Panama. This decline in business activity may cause Bank customers (including affected businesses and individuals) and counterparties to be unable to meet existing payment or other obligations.

The Bank has Policies and Procedures for Business Continuity, which establish the mechanisms to operate in contingency situations, ensuring uninterrupted continuity of operations and services for our clients

As a measure of government relief, the Government has established both voluntary and legal moratorium plans, developed a plan for economic reactivation by blocks for the return to normalcy and among others has developed a financial assistance program to support economic activities with high impact by the pandemic.

In order to further strengthen banking institutions in Panama, the Superintendency of Banks of Panama issued Agreement 2-2020 (amended by Agreement 3-2020) to create a temporary regulation for “modified loans” due to the pandemic. Under the temporary regulation of Agreement 2-2020, a modified loan is a loan for which the original terms and conditions have been modified at the request of the borrower or at the initiative of the bank, without being considered a restructured loan. The new terms and conditions of the modified loans must consider financial feasibility criteria based on the borrower's ability to pay and the Bank's credit policy.

On March 31, 2020, Global Bank voluntarily agreed to grant an automatic grace period to borrowers affected in their businesses or personal activities by COVID-19, until June 30, 2020. On May 4, 2020, the Government of Panama and the Panama Banking Association signed an agreement whereby the members of the Banking Association agreed (i) to extend such grace period until December 31, 2020 to any borrower whose commercial or personal activities were affected by COVID-19 and who so requested, which extension applies to mortgage loans, personal loans, automobile loans, credit cards, SME loans and commercial loans, and (ii) not to exclude mortgages granted by borrowers affected by COVID-19 who have loans with extended grace periods.

On June 30, 2020, the Panamanian Government passed Law No. 156, which grants a moratorium until December 31, 2020 on loan payments to any borrower that can prove that COVID-19 affects it in its commercial or personal activities. According to the terms of the statute, the moratorium applies to mortgage loans, personal loans, automobile loans, credit cards, SME loans, commercial loans, loans to the transportation sector, loans to the agricultural and livestock sector, and consumer loans.

As part of the Bank's risk management, both collective and individual analyses of the credit portfolio condition have been developed, from which policies, processes and procedures for continuous evaluation have been obtained based on established strategies.

The COVID-19 pandemic has created economic and financial disruptions that have negatively affected, and are likely to continue to negatively affect, the Bank's business, financial condition, liquidity and results of operations. The extent to which the COVID-19 pandemic will continue to adversely affect the Bank will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of the Bank's response plan, the direct and indirect impact of the pandemic on our clients and counterparties, as well as other market participants, and actions taken by government authorities (both domestic and foreign) and other third parties in response to the pandemic.

The effects known to Management and which can be reasonably estimated have been recognized in the consolidated financial statements as at June 30, 2020. Based on the best evidence available at the balance sheet date, Management has performed impact analyses and adjusted these consolidated financial statements accordingly and based on the foregoing, the most significant impact from COVID-19 is on the provision for expected losses as disclosed in Note 4.2 to the consolidated financial statements. The Bank's Management will continue to monitor and modify the operational and financial strategies to mitigate possible risks that could affect its business in the short, medium and long term.

36. Reclassification

Some items in the 2019 consolidated income statement have been reclassified to correspond to the 2020 presentation.

37. Modified loans

On September 10, 2020 and according to note SBP-DR-N-4489-2020, the Superintendency of Banks of Panama required the Bank to incorporate additional disclosures on modified loans in accordance with Agreement 2-2020 of March 16, 2020, in the annual financial statements. On September 11, 2020, the Banking Agreement 9-2020 was issued, which modified Agreement 2-2020 and established the requirement of additional disclosures regarding modified loans in the Banks' annual financial statements.

37.1 Legal Framework - Agreement No. 2-2020

Given the unprecedented situation that the Panamanian economy has experienced due to the global pandemic, the Superintendency of Banks of Panama issued Agreement No.2-2020, which establishes additional, exceptional and temporary measures for the compliance with the provisions contained in Agreement No. 4-2013 on credit risk, from which relief measures are derived with the modification of financial terms and conditions of bank loans, through the creation of a new credit modality, called “modified loans”.

Agreement No. 2-2020 establishes provisions that apply to both consumer and corporate loans. In order to allow the debtor to adequately address its obligation with the potential or actual impairment of the possibility of payment resulting from the crisis caused by COVID-19, the Banks may modify the loan conditions, originally agreed upon, categorizing the loans as modified and not considering them as restructured loans according to the provisions of Agreement No. 4-2013. This modification may be made at the request of the debtor or at the Bank's initiative.

The relief measures established for debtors that have been affected by the COVID-19 situation and that meet the criteria of Agreement 2-2020 include: reviewing loan terms and conditions, granting grace periods and maintaining the assigned credit classifications at the time the agreement becomes effective.

In addition, Agreement No 2-2020 allows Banks to use up to 80% of the dynamic provision for the constitution of specific provisions and suspends the application of the contagion mechanism in the credit classifications while the additional, exceptional and temporary measures last.

On March 31, 2020, Global Bank Corp. voluntarily agreed to grant an automatic grace period to borrowers affected in their commercial or personal activities by COVID-19, until June 30, 2020.

On May 4, 2020, the Government of Panama and the Panama Banking Association signed an agreement whereby the members of the Banking Association agreed (i) to extend such grace period until December 31, 2020 to any borrower whose commercial or personal activities were affected by COVID-19 and who so requested it, whose extension applies to mortgage loans, personal loans, automobile loans, credit cards, SME loans and commercial loans, and (ii) not to foreclose on residential mortgage guarantees of COVID-19 affected borrowers who have loans with extended grace periods.

On June 30, 2020, the Panamanian Government issued Law No. 156, which grants a moratorium until December 31, 2020 on loan payments to any borrower who can prove that COVID-19 affects them in their commercial or personal activities. According to the terms of the statute, the moratorium applies to mortgage loans, personal loans, automobile loans, credit cards, SME loans, commercial loans, loans to the transportation sector, loans to the agricultural and livestock sector, and consumer loans.

As at June 30, 2020, the Bank modified 109,080 loans that became classified as “Modified Loans”, which have a capital amount of B/.3,548 million that includes consumer and corporate loans.

37.2 Classification of modified loans per Stage of IFRS 9

The following is the classification of the modified loans by Stage according to the expected loss methodology used by the Bank:

	Stage 1	Stage 2	Stage 3	Total
Gross amount	3,244,915,449	301,451,462	1,976,028	3,548,342,938
Reserve for individual and collective impairment	12,158,010	20,652,439	814,042	33,624,491
Carrying value, net	3,232,757,439	280,799,023	1,161,986	3,514,718,447

37.2.1 Determining a significant risk increase of modified loans

The extension of loan payments or the modified loans established by Agreement No. 2-2020, does not automatically means that those loans have undergone a significant increase in credit risk given that a significant portion of these reliefs address temporary liquidity events generated by the closure or economic decline caused by the Pandemic. As part of the expected loss methodology, the Bank has mechanisms to identify the significant increase in risk applicable in general terms to the credit portfolio, based on quantitative and qualitative methodologies that incorporate, among other components, behavior score models for consumer debtors and internal rating models for corporate debtors (See Note 3.6.9.4 which describes the accounting policy for significant increases in modified loans).

The assessment for recognition of expected credit losses over the life of the modified loans considers credit risk based on the best available quantitative and qualitative information on the current circumstances of borrowers and the impact due to CoVID-19.

As time goes by and the new normality returns, the Bank is obtaining more information from borrowers, which will complement the analysis and identification of the increased risk for the modified loans, either by segment or individually. In order to identify the significant increase in credit risk of the modified loans, the Bank considers the following factors associated to the current situation of COVID-19:

1. For the consumer portfolio, the affectation of clients is determined through conditions related to the aging of the last payment received and causal factors such as: contract termination, suspended contract and decrease in income.

2. With respect to the corporate portfolio and other loans, clients are evaluated on a case-by-case basis to determine the impact of COVID-19 on the business, the economic activity in which it operates and conditions of vulnerability that may be identified in the context of future economic conditions.

37.3 Modified loan guarantees

The Bank maintains guarantees to reduce credit risk and to ensure the collection of its financial assets exposed to credit risk. The main types of guarantees taken with respect to the various modified loans are presented below:

	Consumer				Corporate	
	Personal	Credit cards	Cars	Mortgage	Commercial	Total loans
Loan balance - modified	312,282,093	139,351,107	258,382,156	1,678,228,677	1,160,098,906	3,548,342,938
Guarantees	261,001,442	4,547,613	368,278,556	2,321,781,267	2,510,389,835	5,465,998,714
% of exposure subject to guarantee requirements	84%	3%	143%	138%	216%	154%

Below is a breakdown of the balance of the corporate modified loans:

Sector	Gross amount
Agricultural	60,796,335
Commercial	637,798,154
Construction	337,298,261
Industrial	92,910,858
Financial leases	17,320,931
Pledge	13,974,367
Balance at end of the year	1,160,098,906

The following is a breakdown of the type of guarantees for the corporate modified loans:

Type of guarantee	Amount
Deposit	26,635,422
Furniture	604,369,805
Property	4,810,971,952
Other guarantees	24,021,535
Total	5,465,998,714

37.4 Subsequent Events - Loans Modified and in Moratorium

At the end of August 31, 2020, modified and moratorium loans amounted to $3,588 million, representing 57.5.% of the total loan portfolio at that date. The composition of the modified and moratorium loans consists of 66.2% in consumer loans and 33.8% of corporate loans.

The following table shows the breakdown of the modified and delinquent portfolio by the following categories: (a) modified not in moratorium: loans that prior to the effective date of the Moratorium Law were classified as modified according to the criteria of Agreement 2-2020 and that as at August 31, have not submitted a request for moratorium or are not eligible for the benefits of Law 156; (b) modified in moratorium: loans modified prior to the effective date of the Moratorium Law and that as at August 31 have requested the benefit of the moratorium established by Law 156 and (c) not modified in moratorium: loans that have requested the benefit of the moratorium based on Law 156 and that do not meet the criteria of Agreement 2-2020 (modified loans):

	Consumer				Corporate	
	Personal	Credit cards	Cars	Mortgage	Commercial	Total loans
Loan balance - modified and in moratorium						
Modified not in moratorium	232,983,658	95,100,793	180,633,527	1,128,115,963	1,068,116,588	2,704,950,528
Modified in moratorium	74,873,016	39,286,108	69,023,037	543,164,741	141,376,204	867,723,107
Not modified in moratorium	2,961,800	119,074	693,475	11,427,935	53,252	15,255,536
Total	310,818,475	134,505,975	250,350,039	1,682,708,639	1,209,546,043	3,587,929,171
Guarantees	264,761,223	3,251,291	356,522,359	2,334,086,833	2,552,094,808	5,510,716,513
% of exposure subject to guarantee requirements	85%	2%	142%	139%	211%	154%

During the months of July and August 2020, approximately 32% ($1,142 million) and 49% ($1,756 million) of the modified portfolio has made full contractual payments for those months. In addition, partial payments have been received from the modified portfolio, including those under the moratorium benefit granted by Law 156. Below is the percentage of the modified and moratorium portfolio with partial or full payments, with respect to its payment plan, for the months of June and July.

% of balance with loan payments -	Personal		Credit cards		Cars		Mortgage		Commercial		Total	
modified and in moratorium	July	August	July	August	July	August	July	August	July	August	July	August
Modified not in moratorium	81%	82%	66%	75%	84%	84%	83%	85%	46%	48%	67%	70%
Modified in moratorium	22%	15%	26%	23%	23%	11%	25%	17%	na	13%	25%	16%
Not modified in moratorium	24%	29%	na	32%	21%	29%	18%	31%	na	100%	20%	31%
Total	68%	65%	58%	60%	69%	64%	66%	63%	46%	44%	60%	57%

The Bank's Management expects that with the reopening of economic activity, the level of payments will gradually increase and consequently the modified and moratorium loan portfolio will be reduced, as the loans return to their normal payment condition.

38. Approval of the consolidated financial statements

The consolidated financial statements of Global Bank Corporation and Subsidiaries for the year ended June 30, 2020 were authorized for their issuance by the Board of Directors on August 20, 2020.

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