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G.B. Group Corporation and Subsidiaries

Condensed consolidated interim financial statements as of December 31, 2017 and Interim Financial Information Review Report of February 16, 2018

Deloitte LATCO
Firma miembro de
Deloitte Touche Tohmatsu Limited

G.B. Group Corporation and Subsidiaries

Interim Financial Information Review Report and Condensed Consolidated Interim Financial Statements as of December 31, 2017

Contents | **Page**

Complementary Information

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INDEPENDENT AUDITORS' REVIEW REPORT OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the Board of Directors and Shareholders of
GB Group Corporation

We have reviewed the accompanying condensed consolidated statement of financial position of **GB Group Corporation** as at December 31, 2017 and the corresponding condensed consolidated statement of profit or loss, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period ended on that date, and notes to the interim financial information ("the condensed consolidated financial statements of interim financial information"). Management is responsible for the preparation and fair presentation of this condensed consolidated financial statement of interim financial information in accordance with International Accounting Standard 34 - *Intermediate Financial Information* ("IAS 34"). Our responsibility is to express a conclusion about these condensed consolidated financial statements of interim financial information based on our review.

Scope of the review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of conducting inquiries, mainly with the persons responsible for financial and accounting matters, and applying analytical procedures and other review procedures. A review is substantially smaller in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not allow us to have an assurance that we will be aware of all significant matters that might be identified in an audit. Therefore, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that makes us believe that the accompanying condensed consolidated financial statements of interim financial information as at December 31, 2017, have not been prepared, in all material aspects, in accordance with IAS 34.

Deloitte signed

February 16, 2018
Panama, Republic of Panama

G.B. Group Corporation and Subsidiaries

Condensed consolidated statement of financial situation
as of December 31, 2017
(In balboas)

	Notes	December 2017	June 2017
Assets			
Cash and cash equivalents	8,16	467,228,206	470,767,737
Timed deposits with original maturities greater than 90 days	8	2,355,000	970,000
Securities purchase under resale agreements	7,9	11,044,809	3,035,968
Securities available for sale	7,10,17	430,157,445	449,547,696
Securities held to maturity	11	314,201,162	283,883,911
Loans	7,12,18	4,987,131,543	5,074,441,450
Property, furniture, equipment and improvements	13	148,138,382	138,840,409
Other assets	7,14,30	217,158,639	203,749,709
Total assets		6,577,415,186	6,625,236,880
Liabilities and shareholders' equity			
Liabilities			
Customer deposits		3,459,681,571	3,401,671,873
Bank deposits		137,758,477	170,855,238
Securities sold under repurchase agreements	15	60,000,000	30,000,000
Obligations with financial institutions	7, 10, 11,16	680,266,236	681,794,390
Marketable securities	17	27,221,000	28,500,000
Corporate bonds	11,18	1,297,546,934	1,448,359,394
Subordinated bonds	19	17,332,559	17,427,342
Perpetual bonds	20	114,223,940	112,086,623
Other liabilities	7,21,22	181,250,602	155,324,881
Total liabilities		5,975,281,319	6,046,019,741
Shareholders' equity			
Common stock	23	106,166,822	102,509,619
Excess paid-in capital		2,081,557	2,619,734
Capital reserve		38,352,194	41,505,449
Regulatory reserve	32	74,553,770	73,933,594
Retained earnings		380,979,524	358,648,743
Total shareholders' equity		602,133,867	579,217,139
Total liabilities and shareholders' equity		6,577,415,186	6,625,236,880

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

G.B. Group Corporation and Subsidiaries

Condensed consolidated statement of profit or loss
for the six-month period ended December 31, 2017
(In balboas)

	Notes	December 2017	December 2016
Interest income		180,998,247	169,292,568
Interest expenses		(106,735,032)	(91,764,940)
Net interest income		74,263,215	77,527,628
Commissions earned		24,238,897	28,763,158
Commission expenses		(5,792,735)	(5,127,801)
Net commission income		18,446,162	23,635,357
Net interest and commission income		92,709,377	101,162,985
Other income		5,465,028	2,816,064
		98,174,405	103,979,049
Other expenses			
Impairment allowance	12	5,866,101	6,226,167
Wages and other compensation	7	23,279,681	24,256,305
Professional fees		2,486,490	2,777,910
Depreciation and amortization	13	5,980,704	4,926,312
Amortization of intangible assets	14	125,837	125,566
Advertising and marketing		1,292,253	1,654,397
Maintenance and repairs		4,676,602	4,331,723
Leasing	25	2,478,047	2,164,381
Other taxes		2,439,519	2,198,249
Others		9,648,484	9,390,411
		58,273,718	58,051,421
Profit before income tax		39,900,687	45,927,628
Income tax:	29		
Current		4,589,368	5,517,698
Deferred		(1,250,336)	(927,368)
Income tax		3,339,032	4,590,330
PROFIT FOR THE PERIOD		36,561,655	41,337,298
Net profit per basic share	23	2.25	2.50
Net profit per diluted share	23	2.23	2.49

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

G.B. Group Corporation and Subsidiaries

Condensed consolidated statement of profit or loss and other comprehensive income
for the six-month period ended December 31, 2017
(In balboas)

	Note	December 2017	December 2016
Profit for the period		36,561,655	41,337,298
Other comprehensive income:			
Items that can be subsequently reclassified to profit or loss:			
Net amount transferred to profit or loss	10	1,441,183	431,799
Net changes in securities available for sale	10	(4,594,438)	(603,930)
Other comprehensive income for the period		(3,153,255)	(172,131)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		33,408,400	41,165,167

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

G.B. Group Corporation and Subsidiaries

Condensed consolidated statement of changes in equity
for the six-month period ended December 31, 2017
(In balboas)

	Notes	Total equity	Common stock	Excess paid-in capital	Capital reserve	Regulatory reserve	Retained earnings
Balance at June 30, 2016		514,737,219	102,509,619	2,131,214	35,575,826	68,273,427	306,247,133
Profit for the period		41,337,298	-	-	-	-	41,337,298
Net changes in securities available for sale		(172,131)	-	-	(172,131)	-	-
Comprehensive income for the period		41,165,167	-	-	(172,131)	-	41,337,298
Excess paid-in capital - stock option plan for employees	24	244,260	-	244,260	-	-	-
Dividends paid - common stock	23	(8,959,945)	-	-	-	-	(8,959,945)
Complementary tax		(1,366,296)	-	-	-	-	(1,366,296)
Dynamic provision	32	-	-	-	-	4,877,267	(4,877,267)
Legal reserve	32	-	-	-	-	524,991	(524,991)
Merger of subsidiary company		(26,159)	-	-	-	-	(26,159)
Balance at December 31, 2016		545,794,246	102,509,619	2,375,474	35,403,695	73,675,685	331,829,773
Balance at June 30, 2017		579,217,139	102,509,619	2,619,734	41,505,449	73,933,594	358,648,743
Profit for the period		36,561,655	-	-	-	-	36,561,655
Net changes in securities available for sale		(3,153,255)	-	-	(3,153,255)	-	-
Comprehensive income for the year		33,408,400	-	-	(3,153,255)	-	36,561,655
Excess paid-in capital - stock option plan for employees	24	(538,177)	-	(538,177)	-	-	-
Common stock issuance		3,657,203	3,657,203	-	-	-	-
Dividends paid - common stock	23	(12,287,496)	-	-	-	-	(12,287,496)
Complementary tax		(1,323,202)	-	-	-	-	(1,323,202)
Legal reserve	32	-	-	-	-	620,176	(620,176)
Balance at December 31, 2017		602,133,867	106,166,822	2,081,557	38,352,194	74,553,770	380,979,524

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

G.B. Group Corporation and Subsidiaries

Condensed consolidated statement of cash flows
for the six-month period ended December 31, 2017
(In balboas)

	Notes	December 2017	December 2016
Cash flows from operating activities			
Profit for the period		36,561,655	41,337,298
Adjustments for:			
Depreciation and amortization	13	5,980,704	4,926,312
Gain on sale of furniture and equipment	13	(10,275)	(2,038)
Gain on sale of securities available for sale	10	(1,441,183)	-
Gain on sale of securities held to maturity	11	-	(431,799)
Impairment allowance	12	5,866,101	6,226,167
Income tax	29	3,339,032	4,590,330
Net interest and commission income	12	(186,200,240)	(169,292,568)
Interest expenses		106,735,032	91,764,940
Excess paid-in capital - stock option plan for employees	24	(538,177)	244,260
		(29,707,351)	(20,637,098)
Changes in:			
Deposits with maturities greater than 90 days		(1,385,000)	(1,000,000)
Securities purchased under resale agreements	9	(8,008,841)	(1,981,089)
Loans	12	86,645,799	(286,558,754)
Unearned interest and commissions		-	2,790,814
Other assets		3,866,897	(14,388,157)
Restricted timed deposits	8	(7,319,537)	(28,165,365)
Demand deposits and savings accounts		27,292,355	(8,195,935)
Timed deposits		30,717,343	(10,411,413)
Deposits in banks		(33,096,761)	17,823,291
Other liabilities		20,622,428	32,457,760
Allowance for seniority premiums		194,363	359,948
Cash generated from (used in) operations		89,821,695	(317,905,998)
Income tax paid		(5,159,485)	(8,501,601)
Interest received		165,542,873	163,209,065
Interest paid		(101,626,102)	(88,718,932)
Seniority premiums paid		-	(113,736)
Net cash flows generated from (used in) operating activities		148,578,981	(252,031,202)
Cash flows from investment activities			
Purchase of securities available for sale	10	(161,741,286)	(72,373,869)
Sale of securities available for sale	10	179,419,465	118,357,599
Purchase of securities held to maturity	11	(31,358,934)	(21,144,665)
Sales and redemptions of securities held to maturity	11	1,041,683	252,459
Purchase of property, furniture and equipment	13	(16,409,378)	(27,501,699)
Proceeds from the sale of furniture and equipment	13	1,140,976	(400,688)
Net cash used in investment activities		(27,907,474)	(2,810,863)
Cash flows from financing activities			
Payments made for repurchase agreements operations	15	30,000,000	(33,924,966)
Obligations received		569,148,885	474,309,020
Obligations paid		(570,677,039)	(438,341,176)
Proceed from marketable securities' issuance	17	27,221,000	9,586,000
Payment for redemption of marketable securities	17	(28,500,000)	-
Proceeds from corporate bonds' issuance	17	(148,769,926)	296,934,767
Dividends paid - common stock	23	(12,287,496)	(8,959,945)
Proceeds from common stock issuance		3,657,203	-
Proceeds from merger of subsidiary company		-	(26,159)
Complementary tax		(1,323,202)	(1,366,296)
Net cash flows (used in) generated from financing activities		(131,530,575)	298,211,245
Net (decrease) increase in cash and cash equivalents		(10,859,068)	88,537,364
Cash and cash equipment at the beginning of the period		440,347,604	459,641,850
Cash and cash equivalents at the end of the period	8	429,488,536	548,179,214

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

1. General information

G.B. Group Corporation (the "Company") was incorporated in accordance with the laws of the Republic of Panama, by means of Public Deed No. 4087 of April 20, 1993.

The Company owns 100% of the common stock of Global Bank Corporation and Subsidiaries (the "Bank"), which is incorporated in the Republic of Panama and started operations in June 1994 under a general banking license issued by the Superintendency of Banks of Panama, enabling it to carry out the banking business both in Panama and abroad. Its main activity is commercial and consumer banking. Likewise, it owns 100% of the stock in Propiedades Locales, S.A., a Company engaged in the management of assets acquired from payment settlements.

The absorption merger of Calhoun International, S.A: and Propiedades Locales, S.A. was approved by means of public deed number fourteen thousand nine hundred and forty nine (14,949), surviving the latter as the dominant Company. Said deed was registered on July 1, 2016.

The corporate main office is located at 50th Street, Global Bank Tower, Panama, Republic of Panama.

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

The main activity of the Company and its Subsidiaries is described in Note 31.

2. Basis of preparation

The condensed consolidated interim financial statements were prepared and presented in accordance with IAS 34 – *Interim Financial Reporting*, issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements must be read together with the financial statements as of June 30, 2017, and for the period then ended, which were prepared in accordance with International Financial Reporting Standards (IFRS).

3. Accounting policies

The accounting policies and methods used in the preparation of these condensed consolidated interim financial statements are the same as those applied in the preparation of 2016's condensed consolidated interim financial statements, except for the standards and interpretations effective as of July 1, 2016, which have not had a significant effect on the condensed consolidated interim financial statements.

No new and revised IFRS issued, but not yet effective, have been applied for the fiscal year ended December 31, 2017, and the potential impact of these amendments on the condensed consolidated interim financial statements is currently being assessed.

3.1 Comparative information

The information contained in these condensed consolidated interim financial statements as of June 30, 2017, is presented solely for the purposes of comparison with the information related to the six-month period ended December 31, 2017.

3.2 Income tax

Income tax for the interim periods has been estimated using the tax rate that will be applicable to the expected annual taxable income.

4. Financial risk management

Financial risk factors

The activities of the Group are exposed to a variety of financial risks: credit, liquidity, market and operating risks.

The condensed consolidated interim financial statements do not include all the information on financial risk management and disclosures required in the annual financial statements. These condensed consolidated interim financial statements must be read together with the consolidated financial statements as of June 30, 2017.

There have been no changes in the risk management department or in any risk management policies since June 30, 2017.

5. Estimates

The preparation of these condensed consolidated interim financial statements require Management to make judgments, estimates and assumptions that affect the implementation of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, Management made significant judgments regarding the implementation of the Group's accounting policies and the key sources of uncertainty in the estimates are the same as those applied to the consolidated financial statement for the year ended June 30, 2017.

Fair value of financial assets and liabilities measured at fair value on a recurring basis

Some of the Company's financial assets and liabilities are measured at fair value at the end of each year. The following table provides information about how the fair values of financial assets and liabilities (particularly, the valuation technique and data inputs used) are determined.

Financial assets/ liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key data input(s)	Significant unobservable input data	Relationship between unobservable data inputs and fair value
	December 2017	June 2017				
Shares issued by companies - domestic	1,401,693	2,013,158	Level 2	Observable market prices in non-active markets.	N/A	N/A
Shares issued by companies - domestic	147,617	140,406	Level 3	Bond prices in non-liquid markets.	Calibration prices and calibration date.	If unobservable data increases, the fair value of the instrument will decrease.
Shares issued by companies - foreign	823,225	689,860	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt securities - domestic	4,998,350	-	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - domestic	120,537,547	119,536,531	Level 2	Observable market prices in active markets.	N/A	N/A
Private debt securities - domestic	107,043,862	115,107,760	Level 3	Bond prices in non-liquid markets.	Calibration prices and calibration date.	If unobservable data increases, the fair value of the instrument will decrease.
Private debt securities - foreign	146,539,552	163,303,265	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - foreign	19,770,848	19,578,148	Level 2	Neutral risk assessment. Discount curves are created based on Libor, and the probabilities of default for underlying risk are adjusted to CDS quotes.	N/A	N/A
Government debt securities - domestic	5,734,432	5,734,821	Level 1	Observable market prices in active markets.	N/A	N/A
Government debt securities - domestic	14,713,002	14,975,249	Level 2	Observable market prices in non-active markets.	N/A	N/A
Shares issued by domestic companies, not listed in stock exchange	5,413,870	5,354,570	Level 3	Value per share, adjusted by fair value by the issuer's properties.	Growth in the issuer's assets, liabilities, equity and profit.	If growth increases, the price increases and viceversa.
Investment Funds	1,960,000	1,960,000	Level 2	Observable market prices in non-active markets.	N/A	N/A
Interest rate swaps – fair value	(27,484,687)	(7,271,769)	Level 2	Present value. An assessment of an interest rate swap is attained by adding the present value of all expected cash flows from the swap and then applying a credit adjustment.	N/A	N/A
Interest rate and exchange rate swaps – fair value	(6,471,923)	(4,682,939)	Level 2	Present value. An assessment of an interest rate swap is attained by adding the present value of all expected cash flows from the swap and then applying a credit adjustment.	N/A	N/A
Bonds payable	1,287,546,934	1,388,359,394	Level 2	Fair value is determined based on the contracted hedge instrument.	N/A	N/A
Timed deposits - domestic	202,753,991	205,664,981	Level 2	Fair value is determined based on the contracted hedge instrument.	N/A	N/A
Total	1,885,428,313	2,030,463,435				

The Company considers that their valuation techniques for investments classified at Level 3 are appropriate. However, the use of different estimates for unobservable inputs could result in different fair values for said investments. For investments classified at Level 3, valued by the Company, adjustments to the credit margin of (+100 pbs and -100pbs) in the case of fixed income instruments would result in the following favorable and unfavorable impacts on the Company's equity.

	December 2017	
	Available for sale	
	Effect on equity	
	Favorable	**(Unfavorable)**
Fixed income instruments	5,323,404	(4,997,780)

	June 2017	
	Available for sale	
	Effect on equity	
	Favorable	**(Unfavorable)**
Fixed income instruments	7,937,446	(7,334,025)

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

A summary of the carrying values of the key financial assets and liabilities not measured at fair value in the condensed consolidated statement of financial position of the Company is presented below:

	December 2017		**June 2017**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Cash and deposits in banks	130,152,330	130,152,330	114,664,811	114,664,811
Timed deposits	339,430,876	339,430,876	357,072,926	357,072,926
Securities purchased under resale agreements	11,044,809	11,044,809	3,035,968	3,035,968
Loans	4,987,131,543	4,996,102,624	5,074,441,450	5,079,226,185
Total financial assets	5,467,759,558	5,476,730,639	5,549,215,155	5,553,999,890
Liabilities				
Demand deposits	433,920,167	433,920,167	423,508,201	423,508,201
Savings deposits	654,039,586	654,039,586	637,159,197	637,159,197
Timed deposits	2,509,480,295	2,553,887,091	2,511,859,713	2,553,172,075
Securities sold under repurchase agreements	60,000,000	60,000,000	30,000,000	30,000,000
Obligations with financial institutions	680,266,236	682,291,008	681,794,390	684,050,493
Marketable securities	27,221,000	27,380,401	28,500,000	28,770,129
Corporate bonds	10,000,000	10,000,000	60,000,000	60,000,000
Subordinated bonds	17,332,559	17,451,445	17,427,342	17,437,665
Perpetual bonds	114,223,940	115,315,000	112,086,623	113,924,000
Total financial liabilities	4,506,483,783	4,554,284,698	4,502,335,466	4,548,021,760

	Fair value hierarchy December 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and deposits in banks	130,152,330	-	130,152,330	-
Timed deposits	339,430,876	-	339,430,876	-
Securities purchased under resale agreements	11,044,809	-	11,044,809	-
Loans	4,996,102,624	-	-	4,996,102,624
Total financial assets	5,476,730,639	-	480,628,015	4,996,102,624
Liabilities				
Demand deposits	433,920,167	-	433,920,167	-
Savings deposits	654,039,586	-	654,039,586	-
Timed deposits	2,553,887,091	-	2,553,887,091	-
Repurchase agreements	60,000,000	-	60,000,000	-
Obligations with financial institutions	682,291,008	-	682,291,008	-
Marketable securities	27,380,401	-	27,380,401	-
Corporate bonds	10,000,000	-	-	10,000,000
Subordinated bonds	17,451,445	-	15,313,445	2,138,000
Perpetual bonds	115,315,000	-	91,139,000	24,176,000
Total financial liabilities	4,554,284,698	-	4,517,970,698	36,314,000

	Fair value hierarchy June 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and deposits in banks	114,664,811	-	114,664,811	-
Timed deposits	357,072,926	-	357,072,926	-
Securities purchased under resale agreements	3,035,968	-	3,035,968	-
Loans	5,079,226,185	-	-	5,079,226,185
Total financial assets	5,553,999,890	-	474,773,705	5,079,226,185
Liabilities				
Demand deposits	423,508,201	-	423,508,201	-
Savings deposits	637,159,197	-	637,159,197	-
Timed deposits	2,553,172,075	-	2,553,172,075	-
Repurchase agreements	30,000,000	-	30,000,000	-
Obligations with financial institutions	684,050,493	-	684,050,493	-
Marketable securities	28,770,129	-	28,770,129	-
Corporate bonds	60,000,000	-	10,000,000	50,000,000
Subordinated bonds	17,437,665	-	16,357,665	1,080,000
Perpetual bonds	113,924,000	-	113,924,000	-
Total financial liabilities	4,548,021,760	-	4,496,941,760	51,080,000

The fair value of financial assets and liabilities included in Level 2 and Level 3 shown above has been determined using generally accepted pricing models based on discounted cash flows analysis, where the most important data input is the discount rate that reflects the credit risk of counterparties.

Due to their short term nature, the fair value of interbank and customer deposits is estimated based on discounted cash flows applying rates offered for deposits with similar terms and maturities. Fair value for demand deposits is the amount payable at the date of the condensed consolidated interim financial statements.

The movement of investment available for sale Level 3 is as follows:

	December 2017	**June 2017**
Balance at the beginning of the period	121,756,663	114,070,386
Additions	859,000	51,715,730
Reclassifications from Level 2 to Level 3	42,695,423	32,430,711
Reclassifications from Level 3 to Level 2	(49,896,641)	(40,017,125)
Net changes in securities	(214,077)	1,329,826
Redemptions	(1,521,573)	(37,772,865)
Balance at the end of the period	113,678,795	121,756,663

As of December 31, 2017, Level 3 securities available for sale for B/.1,132,746 (June 2017: B/.1,153,927) have been recorded at acquisition cost. On the other hand, other Level 3 investments for B/.112,546,049 (June 2017: B/.120,602,736) have been recorded at fair value.

As of December 31, 2017 and June 30, 2017, Level 3 securities available for sale did not affect the Company's returns.

The total unrealized gain on securities available for sale classified as Level 3 as of December 31, 2017 is B/.2,724,409 (June 2017: B/.2,938,486) and is shown under line item "net changes in securities available for sale", in the condensed consolidated statement of financial position.

As of December 31, 2017 and June 30, 2017, reclassifications between Level 2 and Level 3 in domestic corporate bonds occurred due to the activity observed in the securities market in which they are listed.

6. Main laws and applicable regulations

6.1 Bank law

In the Republic of Panama, the banks are regulated by the Superintendency of Banks of Panama, through Executive Decree No. 52 of April 30, 2008, adopting its sole text from Decree Law 9 of February 26, 1998, amended by Decree Law No.2 of February 22, 2008, as well as by Resolutions and Agreements issued by this entity. Among the principal aspects of this law are the following: authorization of bank licenses, minimum requirements of capital and liquidity, consolidated supervision, procedures for management of credit and market risks, prevention of money laundering and procedures of bank intervention and liquidation and others. Also, the banks will be subject, at least, to an inspection every two (2) years performed by the auditors of the Superintendency of Banks of Panama to determine the fulfillment of the dispositions of Executive Decree No.52 of April 30, 2008, and Law No.42 of October 2, 2000 related to the prevention of money laundering.

Compliance of the regulating entity

Liquidity Ratio

As of December 31, 2017, the liquidity ratio percentage reported by the Company to the Regulatory Entity, under the parameters of Agreement 4-2008, was 58.31% (June 2017: 46.65%).

Capital Adequacy

Under the Banking Law, general license banks are required to maintain a paid-in capital or an assigned minimum capital of ten million balboas (B/.10,000,000) and capital funds cannot be less than eight percent (8%) of its total weighted assets and off-balance sheet operations. As of December 31, 2017, the Company has consolidated capital funds of approximately 14.63% (June 2017: 13.86%) on its risk-weighted assets, in accordance with Agreement 1-2015 and Agreement 3-2016.

In compliance with prudential standards issued by the Superintendency of Banks of Panama, the accounting treatment for recognition of losses on loans, investment securities and foreclosed properties in lieu of payment, differs in some respects from the accounting treatment according to International Financial Reporting Standards, specifically IAS 39 and IFRS 5. General License Banks are required to comply with the prudential standards as stipulated by the Superintendency of Banks of Panama.

6.2 Insurance and Reinsurance Law

The Superintendency of Insurance and Reinsurance of Panama, through Insurance Law No.12 of 3 April 2012 and Reinsurance Law No.63 of September 19, 1996, regulates the operations of the insurance companies.

6.3 Securities Exchange Law

Brokerage operations in Panama are regulated by the Superintendency of Securities of Panama according to the legislation of Decree Law No.1 of July 8, 1999, reformed by Law No.67 of September 1, 2011. Operations of brokerage houses are in the process of adaptation to Agreement 4-2011, amending certain provisions through Agreement 8-2013, established by the Superintendency of Securities Market of Panama, indicating that they are required to comply with capital adequacy rules and their modalities.

6.4 Trust Law

The Superintendency of Banks of Panama, according to Law No.1 of January 5, 1984, regulates trust operations.

6.5 Financial Lease Law

The Directorate of Financial Entities of Ministry of Commerce and Industries, according to Law No.7 of July 10, 1990, regulates the operations of finance lease.

7. Balances and transactions with related parties

Balances and transactions with related parties included in the condensed consolidated financial statements are summarized below:

	December 2017	June 2017
Transactions with related companies		
Condensed consolidated statement of financial postion		
Assets		
Securities available for sale	20,584,371	20,384,258
Securities purchased under resale agreements	3,000,019	3,000,016
Loans	60,136,531	70,504,512
Accrued interest receivable	330,541	273,079
Other assets	5,308,214	5,658,967
Liabilities		
Customer deposits:		
Demand deposits	18,460,217	20,268,817
Savings deposits	14,360,915	10,761,172
Timed deposits	71,063,565	71,546,254
Accrued interest payabel	150,378	137,423
Commitments and Contingencies	5,662,000	8,619,000

Condensed consolidated statement of profit or loss	December 2017	December 2016
Income and expenses		
Interest and dividend income	1,881,131	1,672,560
Interest expenses	1,406,180	455,510

	December 2017	June 2017
Transactions with executives and key Management personnel		
Condensed consolidates statement of financial position		
Assets		
Loans	14,053,729	14,074,741
Accrued interest receivable	48,137	43,479
Liabilities		
Customer deposits:		
Demand deposits	3,474,849	2,390,755
Savings deposits	11,024,384	9,650,264
Timed deposits	33,629,454	33,489,119
Accrued interest payable	479,161	97,396
Commitments and contingencies	1,521,500	1,511,500

Condensed consolidated statement of profit or loss	**December 2017**	**December 2016**
Income and expenses		
Interest income	317,368	274,606
Interest expenses	709,526	640,968
Key Management personnel benefits		
Wages	1,754,060	1,751,416
Participation in profits	1,620,250	1,557,425
Excess paid-in capital - Stock option plan for employees	(538,177)	244,260
Directors' allowances	186,500	182,000
	3,022,633	3,735,101

As of December 31, 2017, the collaterals guaranteeing loans to related parties amounted to B/.122,785,373 (June 2017: B/.85,661,163), which corresponded to properties, furniture and investment securities.

As of December 31, 2017 and June 30, 2017, there was no loans to related parties showing signs of impairment. As of December 31, 2017, loans to related parties have maturity dates between February 2018 and May 2047 and annual interest rates between 0.75% and 9% (June 2017: maturities between July 2017 and June 2047, annual interest rates between 0.75% and 9%).

8. Cash and cash equivalents

Cash and deposits in Banks are detailed as follows:

	December 2017	June 2017
Cash and cash equivalents	44,765,546	29,171,012
Demand deposits	85,386,784	85,493,799
Timed deposits	339,430,876	356,102,926
Cash and cash equivalents for purposes of the condensed consolidated statement of cash flows	469,583,206	470,767,737
Less:		
Restricted timed deposits	(37,739,670)	(30,420,133)
Timed deposits with original maturities greather than 90 days	(2,355,000)	970,000
Cash and cash equivalents for purposes of the condensed consolidated statement of cash flows	429,488,536	441,317,604

As of December 31, 2017, there were timed deposits with original maturities greater than 90 days for B/.2,355,000 (June 2017: B/. 970,000). Additionally, there are restricted timed deposits for B/.37,689,670 (June 2017: B/.30,395,133), which guarantee borrowed funds.

9. Securities purchased under resale agreements

As of December 31, 2017, securities purchased under resale agreements for B/.11,044,809 (June 2017: B/.3,035,968) are secured by corporate shares and bonds with maturities in January, February, April, August and September 2018 (June 2017: maturities in September 2017, February and April 2018).

10. Securities available for sale

Securities available for sale are comprised of the following types of investment:

	December 2017	June 2017
Securities listed in the stock exchange:		
Shares issued by companies - domestic	1,549,310	2,153,564
Shares issued by companies - foreign	823,225	689,860
Private debt securities - domestic	232,579,760	234,644,291
Private debt securities - foreign	166,310,400	182,881,413
Government debt securities - domestic	20,447,434	20,710,070
Investment funds - foreign	1,960,000	1,960,000
	423,670,129	443,039,198
Securities not listed in the stock exchange:		
Shares issued by companies - domestic	5,544,670	5,548,952
Government debt securities - domestic	942,646	959,546
	6,487,316	6,508,498
Total	430,157,445	449,547,696

The net gain on embedded derivatives in securities available for sale as of December 31, 2017, was B/.166,090 (December 2016: B/.245,692).

As of December 31, 2017, there are securities available for sale for B/.57,210,138 (June 2017: B/.98,365,292), which guarantee obligations with financial institutions. See Note 16.

As of December 31, 2017, the Company sold and redeemed investments for B/.177,978,282 (June 2017: B/.306,798,086) and, as a result, recorded a gain of B/.1,441,183 (December 2016: B/.431,799), which was included in the condensed consolidated statement of profit or loss.

The following table presents investments that had unrealized losses for less than 12 months, and for 12 months or more:

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
Corporate debt	55,427,790	(490,048)	72,128,272	(3,303,343)	127,556,062	(3,793,391)

	June 30, 2017					
	Less than 12 months		12 months or more		Total	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
Corporate debt	46,181,349	(405,140)	71,538,230	(1,376,344)	117,719,579	(1,781,484)

11. Securities held to maturity

Securities held to maturity recorded at amortized cost are summarized below:

	December 2017		June 2017	
	Carrying value	Fair value	Carrying value	Fair value
Securities listed in the stock exchange:				
Private debt securities - domestic	3,060,444	3,150,270	3,051,172	3,120,090
Private debt securities - foreign	175,823,307	182,047,157	165,663,418	170,994,287
Government debt securities - domestic	64,962,284	67,254,088	44,391,246	45,512,095
Government debt securities -foreign	70,355,127	71,976,676	70,778,075	72,056,255
Total	314,201,162	324,428,191	283,883,911	291,682,727

As of December 31, 2017, the annual interest rate earned by securities held to maturity ranges between 3.125% and 8.875% (June 2017: 3.125% and 8.875%).

As of December 31, 2017, there are securities held to maturity for B/.35,668,863 (June 2017: B/.67,730,306), which guarantee obligations with financial institutions. See Note 16.

12. Loans

Loans classified by type are as follows:

	December 2017			June 2017		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Domestic:						
Consumer	825,664,924	(18,603,838)	807,061,086	807,875,094	(12,254,814)	795,620,280
Commercial	965,118,123	(7,137,155)	957,980,968	1,018,295,783	(5,709,539)	1,012,586,244
Agricultural	308,237,389	(2,794,508)	305,442,881	320,721,014	(2,060,468)	318,660,546
Pledge	108,908,187	-	108,908,187	127,957,717	-	127,957,717
Overdrafts	133,534,034	(1,168,247)	132,365,787	134,388,625	(2,370,034)	132,018,591
Mortgages	1,088,448,891	(3,122,251)	1,085,326,640	1,024,429,328	(1,938,846)	1,022,490,482
Industrial	252,396,370	(539,916)	251,856,454	268,228,541	(559,020)	267,669,521
Construction	792,345,252	(1,373,524)	790,971,728	798,271,108	(1,371,854)	796,899,254
Financial leasing	42,255,995	(1,469,049)	40,786,946	45,986,655	(1,241,156)	44,745,499
Factoring	289,735,447	(4,139,241)	285,596,206	327,713,553	(4,260,828)	323,452,725
Total domestic	4,806,644,612	(40,347,729)	4,766,296,883	4,873,867,418	(31,766,559)	4,842,100,859
Foreign:						
Commercial	115,688,875	(10,053)	115,678,822	134,444,828	-	134,444,828
Agricultural	1,280,150	-	1,280,150	1,390,955	-	1,390,955
Industrial	40,542,187	-	40,542,187	43,942,280	-	43,942,280
Construction	45,260,218	-	45,260,218	43,576,140	-	43,576,140
Pledge	17,970,022	-	17,970,022	18,000,022	-	18,000,022
Overdrafts	22,280,063	-	22,280,063	21,416,859	-	21,416,859
Total foreign	243,021,515	(10,053)	243,011,462	262,771,084	-	262,771,084
	5,049,666,127	(40,357,782)	5,009,308,345	5,136,638,502	(31,766,559)	5,104,871,943
Less:						
Allowance for collective impairment			(8,155,089)			(11,206,787)
Unearned discounted interest and commissions			(14,021,713)			(19,223,706)
Total			4,987,131,543			5,074,441,450

As of December 31, 2017, the balance on principal for delinquent loans (31 to 90 days) and overdue loans (over 90 days), was B/.50,111,474 (June 2017: B/.45,404,484) and B/.98,756,197 (June 2017: B/.65,571,686), respectively.

As of December 31, 2017, the Company had a balance of restructured loans of B/.79,938,100 (June 2017: B/.84,179,141) and loans with non-accrual interest status for B/.75,924,097 (June 2017: B/.58,191,561).

The corporate bond issuance of October 2012 is secured by an Irrevocable Guarantee Trust composed by residential mortgage loans pledged as collateral whose balance as of December 31, 2017 is B/.698,075,217 (June 2017: B/.710,979,005).

As of December 31, 2017 and June 30, 2017, the loan portfolio accrued interest at a rate ranging from 0.75% to 24%.

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

	December 2017	June 2017
Fixed rate	660,788,761	696,632,513
Variable rate	4,135,709,949	4,156,736,343
Variable rate (Libor or Prime)	253,167,417	283,269,646
Total	5,049,666,127	5,136,638,502

The movement of the impairment allowance for possible loan losses is detailed as follows:

	December 2017	June 2017
Balance at the beginning of the period	42,973,346	38,848,585
Provision charged to expenses	5,866,101	19,377,830
Recoveries	1,046,329	1,754,560
Writen-off loans	(1,372,905)	(17,007,629)
Balance at the end of the period	48,512,871	42,973,346

Financial leasing, net

The balance of net financial leasing and the maturity profile of the minimum payments are summarized as follows:

	December 2017	June 2017
Minimum payments up to 1 year	1,991,401	2,260,483
Minimum payments from 1 to 5 years	40,264,594	43,726,172
Total minimum payments	42,255,995	45,986,655
Less: unearned discounted interest	(4,671,661)	(5,452,571)
Total financial leasings, net	37,584,334	40,534,084

13. Property, furniture, equipment and improvements

Property, furniture, equipment and improvements is summarized as follows:

	December 2017							
	Land	Real Estate	Furniture and office equipment	Computer Equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At the beginning of the period	4,466,942	59,815,280	21,232,556	58,546,030	2,753,700	8,469,472	47,064,554	202,348,534
Additions or acquisitions	-	2,337,083	744,361	821,161	339,550	552,516	11,614,707	16,409,378
Sales and Disposals	-	(1,714,542)	(448,849)	(751,097)	(180,500)	(801,562)	-	(3,896,550)
At the end of the period	4,466,942	60,437,821	21,528,068	58,616,094	2,912,750	8,220,426	58,679,261	214,861,362
Accumulated depreciation and amortization:								
At the beginning of the period	-	12,646,763	11,728,391	34,065,165	1,877,174	3,190,632	-	63,508,125
Expenses for the period	-	1,075,573	1,263,538	2,895,345	259,414	486,834	-	5,980,704
Sales and Disposals	-	(586,852)	(446,747)	(750,434)	(180,254)	(801,562)	-	(2,765,849)
At the end of the period	-	13,135,484	12,545,182	36,210,076	1,956,334	2,875,904	-	66,722,980
Net balances	4,466,942	47,302,337	8,982,886	22,406,018	956,416	5,344,522	58,679,261	148,138,382

	June 2017							
	Land	Real Estate	Furniture and office equipment	Computer Equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At the beginning of the period	4,466,942	39,278,681	17,361,776	43,869,562	2,840,106	6,490,393	45,309,891	159,617,351
Additions or acquisitions	-	20,536,599	4,270,463	16,690,208	175,546	2,612,100	1,754,663	46,039,579
Sales and Disposals	-	-	(399,683)	(2,013,740)	(261,952)	(633,021)	-	(3,308,396)
At the end of the period	4,466,942	59,815,280	21,232,556	58,546,030	2,753,700	8,469,472	47,064,554	202,348,534
Accumulated depreciation and amortization:								
At the beginning of the period	-	10,793,949	9,829,235	29,949,537	1,582,938	3,297,510	-	55,453,169
Expenses for the period	-	1,852,814	2,274,597	5,128,566	531,135	526,143	-	10,313,255
Sales and Disposals	-	-	(375,441)	(1,012,938)	(236,899)	(633,021)	-	(2,258,299)
At the end of the period	-	12,646,763	11,728,391	34,065,165	1,877,174	3,190,632	-	63,508,125
Net balances	4,466,942	47,168,517	9,504,165	24,480,865	876,526	5,278,840	47,064,554	138,840,409

14. Other assets

Other assets are summarized as follows:

	December 2017	June 2017
Accrued interest receivable	53,700,345	38,454,417
Accounts receivable - National Treasury	41,623,638	41,010,041
Goodwill (a)	16,762,687	16,762,687
Accounts receivable	14,815,075	18,515,297
Deferred income tax	11,782,168	10,531,833
Prepaid expenses	11,203,837	6,691,313
Derivative instruments	10,234,378	10,234,378
Intangible assets (b)	9,097,599	9,223,436
Guarantee deposits	7,892,517	7,911,551
Foreclosed assets	6,335,332	5,427,589
Insurance premiums receivable	6,082,326	5,049,461
Accounts receivable - related companies	5,308,214	5,658,967
Others	5,138,818	4,431,415
Severance fund	4,978,367	4,700,181
Items in transit	4,193,810	2,565,783
Tax credit - agrarian subsidy	3,976,488	4,388,426
Claims to insurance companies	2,001,375	1,500,332
Judicial deposits	1,234,586	1,285,319
Obligations of clients under acceptances	797,079	1,109,889
Hedge derivatives	-	8,297,394
	217,158,639	203,749,709

Business combination

(a) Goodwill

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

Acquisition date	Company acquired	% of participation acquired	December 2017	June 2017
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
			16,762,687	16,762,687

(b) Intangible assets

As of December 31, 2017, the condensed consolidated statement of financial position holds intangible assets for B/.9,097,599 (June 2017: B/.9,223,436) of which B/.1,389,963 were generated from the acquisition by Progreso, S.A., of the rights to manage the severance fund portfolio of HSBC Investment Corporation (Panamá), S.A., which have an estimated life of 20 years. This was a transaction between Progreso and HSBC. As a result from the acquisition of Progreso by Global Bank, intangible assets were generated for B/.8,454,809, of which B/.1,364,809 correspond to trademarks with an indefinite life and B/.7,090,000 with an estimated customer portfolio life of 40 years.

	December 2017	June 2017
Cost:		
Rights to manage severance fund portfolio of HSBC		
Investment Corporation (Panamá, S. A.)	1,389,963	1,389,963
Trademark and other intangibles	8,454,809	8,454,809
	9,844,772	9,844,772
Accumulated amortization:		
Balance at the beginning of the period	(621,336)	(368,085)
Amortization	(125,837)	(253,251)
	(747,173)	(621,336)
Net balance at the end of the period	9,097,599	9,223,436

In order to check for impairment of goodwill or other intangible assets, a valuation of the various assets (contracts, portfolios) or business acquired by the Company that have generated such goodwill or intangibles is carried out. The Company mainly uses the method of discounted future cash flows of the corresponding assets or businesses acquired or alternative business valuation techniques including multiples of income or equity, as applicable.

As of December 31, 2017 and June 30, 2017, there were no impairment losses in goodwill or intangible assets. The valuation made using the method of discounted net future cash flows generated by the assets or businesses acquired indicates that their present value exceeds their carrying value.

To carry out the valuation of assets and businesses acquired, expected net cash flows of assets or businesses were projected for periods between six and ten years. Likewise, 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 the nature of each, and the current range is between 0 and 10%, while the perpetual growth rates are between 0% and 3%.

- To determine the growth rates of assets or businesses, growth, performance and real historical metrics of the relevant assets or businesses were used as reference, as well as its future prospects and anticipated macroeconomic growth in the country. Businesses or segments were evaluated, as well as business plans of the Bank and expected growth rates in general, as well as for specific businesses.

- To calculate the present value of future cash flows and determine the value of assets and businesses that are being evaluated, 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 flows of asset funds or units are discounted with a profile different from the Bank's, the cost of capital applicable to that activity is used. The Bank's cost of capital is based on the average long-term interest rates of AAA instruments in dollars, the country risk premiums and the return premiums for applicable capital investments. The cost of used capital fluctuates between 10% and 15%, and changes over time.

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

The amortization expense is presented in the condensed consolidated statement of profit or loss under line item "amortization of intangible assets".

15. Securities sold under repurchase agreements

Securities sold under repurchase agreements are usually recorded as borrowed funds transactions with guarantees and recorded at their purchased price plus accrued interest.

As of December 31, 2017, the Company holds repurchase agreements for B/.60,000,000 (June 2017: B/.30,000,000), guaranteed by investments at an interest rate of 2.29139% and 3.05213% (June 2017: 2.02444%) with maturities in January and February 2018 (June 2017: September 2017).

The Company evaluates the market value of the securities sold and releases guarantees to the counterparties when appropriate.

16. Obligations with financial institutions

The obligations with financial institutions are summarized as follows:

	December 2017	June 2017
As at December 31, 2017, there are obligations with other banks for financing of foreign trade, with various maturities up to December 2018 and annual interest rates between 1.6771% and 3.6976% and, as at June 30, 2017, between 1.3962% and 3.6459%.	316,451,809	313,187,608
As at December 31, 2017, there are obligations with financial institutions for short-term liquidity management, with renewable maturities starting June 2018 and annual interest rates between 2.1500% and 3.3005% - reviewed quarterly, and, as at June 30, 2017, annual interest rates from 2.1760%.	67,806,834	114,673,543
As at December 31, 2017, there are obligations with an international organization for long-term liquidity management, with renewable maturities between March 2019 and November 2022 and interest rates between 4.356% and 5.130% , and, as at June 30, 2017, interest rates between 4.539% and 5.130%.	108,710,968	77,167,461
As at December 31, 2017, there are obligations with foreign banks for working capital, with various maturities up to September 2020 and annual interest rate between 2.9986% and 3.80572% and, as at June 30, 2017, between 2.97000% and 3.80572%.	159,546,625	162,265,778
As at December 31, 2017, there are obligations with a multilateral financial institution, with various terms and with final maturities starting May 2018 up to September 2018, the interest rates range between 2.8786% and 5.16% - reviewed quarterly, and, as at June 30, 2017, between 2.9279% and 5.160%.	27,750,000	14,500,000
Total	680,266,236	681,794,390

As of December 31, 2017, there are securities available for sale for B/.57,210,138 (June 2017: B/.98,365,292) and securities held to maturity for B/.35,668,863 (June 2017: B/.67,730,306), which guarantee these obligations to financial institutions. Likewise, there are restricted timed deposits as of December 31, 2017, for B/.37,689,670 (June 2017: B/.30,395,133), which guarantee these obligations with financial institutions. See Notes 7, 10 and 11.

The Company is in compliance with the payment of principal and interest as well as with contractual clauses related to their obligations and placements.

17. Marketable securities

According to Resolution No.253-06 of October 26, 2006 of the Superintendency of Securities Exchange of the Panama, Global Bank Corporation was authorized to offer, through a Public Offering, marketable securities (called VCNs in Panama) with a par value of up to B/.100,000,000 and maturity up to one year from the issuance date. The marketable securities will be issued in a global, renewable, registered format, without coupons, in denominations of B/.1,000 or its multiples and in as many series as deemed convenient by the Issuer according to their needs and market demand. The marketable securities will accrue an annual fixed interest rate depending on the maturity dates of the securities and will be determined at the time of making the bid offering. Interest shall be paid monthly. These securities cannot be redeemed early by the Issuer and are secured by Global Bank Corporation’s overall credit.

The marketable securities (VCNs) are summarized as follows:

Series	**Issuance date**	**Interest rate**	**Maturity**	**December 2017**
C-B	March 16, 2017	3.00%	mar-18	5,000,000
C-D	June 7, 2017	3.00%	jun-18	8,000,000
C-E	August 4, 2017	3.25%	jul-18	5,000,000
C-F	September 4, 2017	3.25%	aug-18	6,000,000
C-G	September 25, 2017	3.25%	sep-18	2,221,000
C-H	November 14, 2017	2.25%	may-18	1,000,000
Total				27,221,000

Series	**Issuance date**	**Interest rate**	**Maturity**	**June 2017**
B-Y	August 9, 2016	2.75%	aug-17	2,000,000
B-Z	September 8, 2016	3.00%	sep-17	5,000,000
C-A	September 30, 2016	3.00%	sep-17	7,000,000
C-B	March 16, 2017	3.00%	mar-18	5,000,000
C-C	May 17, 2017	2.25%	nov-17	1,900,000
C-D	June 7, 2017	3.00%	jun-18	7,600,000
Total				28,500,000

18. Corporate bonds

Corporate bonds are summarized as follows:

Type	Interest rate	Maturity	December 2017	June 2017
A Series - May 2011 Issuance	6.000%	feb-19	-	50,000,000
E Series - May 2011 Issuance	4.617%	apr-19	10,000,000	10,000,000
A Series - October 2012 Issuance	4.750%	oct-17	-	83,597,826
A Series - June 2014 Issuance	4.802%	nov-18	77,250,393	78,950,141
A Series - October 2014 Issuance	5.125%	oct-19	546,579,643	550,246,084
A Series - October 2016 Issuance	4.500%	oct-21	663,716,898	675,565,343
Total			1,297,546,934	1,448,359,394

The guarantees granted by Global Bank Corporation for these issuances are described as follows:

October 2008 Issuance – October 2008 bond issuance is secured by Global Bank Corporation's overall credit.

May 2011 Issuance – Bonds from this issuance are unsecured and do not have special privileges regarding priority, and are backed only by the Issuer's overall credit.

The Issuer, at its discretion, may redeem these bonds partially or totally, starting on the date determined for each series, which cannot be less than 2 years from their respective issuance date.

October 2012 Issuance – The bonds from the October 2012 issuance are secured by an Irrevocable Guarantee Trust composed of residential mortgage loans granted as collateral. Such collaterals include any principal, interest, costs, charges, and expenses relating to such loans, including insurance policies that guarantee the payment of any compensation related to such loans. Likewise, tax credits arising from the preferential mortgage portfolio are included as guarantee of repayment.

June 2014 Issuance – Bonds from this issuance constitute direct, unconditional and unsecured obligations.

October 2014 Issuance – Bonds from this issuance constitute direct, unconditional and unsecured obligations.

October 2016 Issuance – Bonds from this issuance constitute direct, unconditional and unsecured obligations.

The Company entered in interest rate and exchange rate swaps on bonds, which qualify as fair value hedges. As of December 31, 2017, the net fair value on the hedge instrument attributed to the hedged risk had a decrease of B/.33,956,610 (June 2017: B/.12,196,297). See Notes 14 and 22.

19. Subordinated bonds

Through Resolution No. 324-10 of August 26, 2010, Global Bank Corporation was authorized by the Superintendency of Securities Market of Panama to offer through a Public Offering non-cumulative subordinated bonds from Global Bank Corporation for a nominal value of B/.150,000,000 issued in a nominative and registered format, without coupons. The bonds will be issued in denominations of B/.1,000 or its multiples.

The bonds will be issued in series, whose amounts, term and annual interest rates will be determined by the needs of the Issuer and market demand. The bonds may be offered in the primary market for 100% of their nominal value, or for a higher or lower price than their par value, depending on financial market conditions at that time. The annual interest rate for each series may be fixed or variable at the Issuer's option. In case of a fixed rate, the bonds will bear an annual interest rate to be determined by the Issuer according to market demand. In case of variable interest rates, the bonds will bear an annual interest rate equal to one month LIBOR plus a spread that will be determined by the Issuer according to market demand. The variable interest rate may be subject, at the Issuer's option, at a rate range with a minimum and maximum amount for each of the respective series. The variable rate will be reviewed and determined monthly as described in Section III(A)(6) of the Prospectus. The Issuer will determine the amount of each series, the term placement price, interest rate and first redemption date, not less than 5 business days prior to the issuance of each series and notify the Superintendency of Securities Market of Panama not less than 3 business days prior to the issuance of each series, by a supplement to the Prospectus. Accrued interest on the bonds of each series will be payable on the 30th day of each month until the maturity date or the date of early redemption of the bonds. For each of the series issued, one single equity payment will be made on the date of maturity of each series or until early redemption. The bonds will be issued with a maturity of up to 60 years, at the option of the Issuer, counted from the date of issuance of the relevant bonds. The bonds may be redeemed by the Issuer, at its discretion, partially or totally, from the date determined by the Issuer for each series, which may not be less than 3 years from their respective date of issue. The bonds may be redeemed prior to these 3 years if Regulatory Events occur beyond the control of the Issuer. The bonds of this issuance are general obligations of the Issuer, subordinated, unsecured and without special privileges in terms of priority, and are only backed by the Issuer's overall credit.

Type	Interest rate	Maturity	December 2017	June 2017
A Series - August 2010 Issuance	6.75%	aug-70	1,752,000	1,852,000
B Series - November 2010 Issuance	6.75%	aug-70	8,846,822	8,843,639
C Series - December 2010 Issuance	6.75%	aug-70	5,653,737	5,651,703
D Series - May 2011 Issuance	6.75%	aug-70	386,000	386,000
E Series - October 2014 Issuance	6.75%	aug-70	694,000	694,000
Total			17,332,559	17,427,342

20. Perpetual bonds

Through Resolution No. 259-16 of April 27, 2016, Global Bank Corporation was authorized by the Superintendency of Securities Market of Panama to offer perpetual subordinated bonds convertible into common stock through a public offering, for a total nominal value of B/.250,000,000 issued in a global and registered format, without coupons, but they may be issued individually at the request of the registered bond holder. The bonds will be issued in denominations of B/.1,000 or its multiples. The bonds will be initially offered at a price at par, i.e., at 100% of their face value, but may be subject to deductions or discounts as well as premiums or surcharges, as determined by the Issuer, according to their needs and market conditions. The bonds will be issued in series, whose amounts, term and annual interest rates will be determined according to the needs of the Issuer and market demand. Bonds of each series will bear interest as of the settlement date at a fixed or variable annual interest rate, which will be determined by the Issuer at least two (2) business days prior to the offering date of each series. Interest will be payable at the period to be determined by the Issuer for each series, on the days indicated by the issuer for said payment and, if it is not a business day, then payment will be made on the following business day. The basis for the calculation of interest will be 365/360. The issuer has the right to suspend payment of interest under certain circumstances and interest will not accumulate with respect to those periods in which the Issuer exercises this right. The Issuer may make bond issues in denominations requested by market demand, provided they do not exceed the authorized B/.250,000,000 amount. Bonds are issued to perpetuity, so they do not have a fixed maturity date. Bonds of any series may be redeemed, totally or partially, at the Issuer's discretion as of the sixth year of the issuance date of the respective series.

Type	Interest rate	December 2017	June 2017
A Series - May 2016 Issuance	6.75%	23,773,497	23,756,516
B Series - July 2016 Issuance	6.75%	90,450,443	88,330,107
Total		114,223,940	112,086,623

21. Allowance for insurance operations

Unearned premiums

	December 2017	June 2017
Balance at beginning of year	5,516,386	4,482,563
Premiums issued	12,161,877	25,242,442
Premiums earned	(6,074,075)	(11,170,509)
Balance at end of year	11,604,188	18,554,496
Participation of reinsurers	(5,687,786)	(13,038,110)
Unearned premiums, net	5,916,402	5,516,386

Outstanding claims to be settled, estimates	**December 2017**	**June 2017**
Balance at beginning of year	4,250,783	3,767,279
Incurred claims	3,831,059	7,466,309
Paid claims	(3,781,073)	(6,982,805)
Claims pending settlements, estimated net	4,300,769	4,250,783
Total	10,217,171	9,767,169

The Company reduces its credit risk with respect to these agreements when using financially sound institutions as a counterpart. These contracts are recorded at fair value in the condensed consolidated statement of financial position using the methods of fair value or cash flows (“fair value hedge” or “cash flow hedge”) in other assets and other liabilities, as appropriate.

Fair value hedging

To manage its position in the condensed consolidated statement of financial position, the Company has made “interest rate swap” contracts on corporate bonds and clients’ time deposits with a nominal value of B/.1,455,003,000 as of December 31, 2017 (June 2017: B/.1,555,003,000), which allow the conversion of fixed interest rates on variable rates during each pay period; and “cross currency swap” contracts on corporate bonds with a par value of B/.83,892,617 for both periods that will allow the conversion of the fixed interest rate on the variable interest rate and hedge the variability of the exchange rate during each payment period.

Below is the summary of derivative contracts by maturities and accounting method:

	December 2017		
	Remaining maturity of nominal value		
Accounting method	**Over 1 year**	**Less than 1 year**	**Total**
Fair value	1,455,003,000	83,892,617	1,538,895,617
Total	1,455,003,000	83,892,617	1,538,895,617

	June 2017		
	Remaining maturity of nominal value		
Accounting method	**Over 1 year**	**Less than 1 year**	**Total**
Fair value	1,538,895,617	100,000,000	1,638,895,617
Total	1,538,895,617	100,000,000	1,638,895,617

The nominal value and estimated fair value of derivative instruments of interest rates as of December 31, 2017 and June 30, 2017 are presented in the following table. The fair value of derivative financial instruments is estimated using internal valuation models with observable market data.

	December 2017		June 2017	
Type	**Nominal value**	**Fair value**	**nominal value**	**Fair value**
Derivatives for fair value hedging (for financings)	1,538,895,617	(33,956,610)	1,638,895,617	(12,196,297)
Total	1,538,895,617	(33,956,610)	1,638,895,617	(12,196,297)

For cash flow hedges, the effective portion of gains or losses due to changes in the fair value of a derivative hedging instrument is included in net change in hedging instruments. The ineffective portion (indicated by excessive cumulative change in fair value of the derivative on the amount necessary to offset the cumulative change in future expected cash flows of hedging transactions) is included in other income (expenses). During the year, the hedge was highly effective in hedging the risk of variability in interest rates that could affect the cash flows of the Company.

For fair value hedging derivatives, gains or losses from changes in fair value of derivative instruments including the risk of non-compliance such as the hedged item attributable to hedged risk are included in other income (expenses).

22. Other liabilities

The breakdown of other liabilities is shown below:

	December 2017	June 2017
Accrued interest payable	38,375,643	33,266,713
Other creditors	34,801,807	34,866,892
Hedging derivative	33,956,609	14,763,023
Cashier's checks and certificates	25,982,327	26,008,365
Provisions of insurance operations	13,030,001	12,412,644
Employee benefits liabilities and other labor liabilities	12,135,370	14,479,449
Items in transit	7,606,665	1,965,150
Factoring guarantee deposits	5,031,821	7,195,809
Other provisions	10,330,359	10,366,836
Total	181,250,602	155,324,881

Retained guarantees payable clients consist of a percentage value of each retained discounted invoice until the time its collection is made effective. If at the end of the contract the invoice becomes uncollectible, the Company reduces the account receivable for the remaining balance in the account of retained guarantees payable.

23. Common shares

Authorized capital of G. B. Group Corporation consists of 30,000,000 common shares without nominal value. As of December 31, 2017, issued shares amount to 16,551,232 (June 2017: 16,551,232). As of December 31, 2017, dividends were paid on common shares for a total of B/.12,287,496 (December 2016: B/.8,959,945).

Calculations of net income per basic share and net income per diluted share are presented below:

	December 2017	December 2016
Calculation of net income per basic share		
Net income attributable to common shareholders (numerator)	37,236,851	41,337,298
Weighted average number of common shares (denominator)	16,551,232	16,539,715
Net income per basic share	2.25	2.50
Calculation of net income per diluted share		
Net income attributable to common shareholders (numerator)	37,236,851	41,337,298
Average number of common shares	16,551,232	16,539,715
Option to purchase common shares in favor of key executives	139,964	85,401
Number of potentially diluted common shares (denominator)	16,691,196	16,625,116
Net income per diluted share	2.23	2.49

24. Capital paid in excess - Employee Stock Option Plan

As of December 31, 2017, key executives held options on 118,466 common shares of the Parent Company (G.B. Group Corporation) (June 2017: 145,079), of which 39,679 may be executed in 2018; 22,406 may be executed in 2019 and 56,381 may be executed in 2020 with an average execution price of B/.39.47 as of December 31, 2017 (June 2017: B/.38.12). The Company recognized an income of B/.538,177 (December 2016: expenses for B/.244,260), in the condensed consolidated statement of profit or loss in the item line of salaries and other personnel costs and the corresponding entry in equity, which reflects the capital contribution it will receive from its Parent Company.

25. Operating lease agreements

Lease Agreements

The Company has several operating leases for its premises with terms of 1 to 5 years. For the period ended December 31, 2017, lease payments were for B/.2,478,047 (December 2016: B/.2,164,381). Minimum lease commitments under all leases for the next 5 years are detailed below:

	December 2017	June 2017
Up to 1 year	2,865,893	3,337,524
Between 1 and 5 years	12,158,610	13,499,135
	15,024,503	16,836,659

26. Commitments and contingencies

The Company has financial instruments outside the condensed consolidated statement of financial position with credit risk resulting from the normal course of it business operations and which involve elements of credit and liquidity risk. These financial instruments include letters of credit, financial guarantees and promissory notes that are described below:

	December 2017	June 2017
Letters of credit	52,385,246	85,590,710
Financial guarantees and guarantees	411,435,859	478,379,133
Promissory notes	317,345,927	369,624,902
Credit lines granted but not used	188,081,923	225,143,414
Total	969,248,955	1,158,738,159

Letters of credit, financial guarantees, granted guarantees, promissory notes and credit lines granted but unused are exposed to credit losses in the event that the customer does not fulfill its obligation to pay. The policies and procedures of the Company in approving credit commitments, financial guarantees and promissory notes are the same as those used for lending recorded in the condensed consolidated statement of financial position.

Guarantees granted have fixed maturity dates, which mostly mature without a disbursement, and therefore pose no risk of significant liquidity. As for letters of credit, most are used; however, most used are at sight and their payment is immediate.

Promissory notes are a commitment where the Company agrees to make a payment once certain conditions are met, which have an average maturity of six months and are mainly used for disbursements of mortgage loans. The Company does not anticipate losses as a result of these transactions.

As of December 31, 2017, the Company has commitments for construction projects of new facilities for B/.17,557,894 (June 2017: B/.17,348,915).

27. Management of trust contracts and investment portfolio

The company held contracts in management as of December 31, 2017:

(a) Trust contracts at their clients' own risk amounting to B/.1,582,109,461 (June 2017: B/.1,510,969,428).

(b) Investment portfolios at their clients' own risk amounting to B/.1,121,306,714 (June 2017: B/.1,133,278,605).

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

28. Management of pension and severance funds

As of December 31, 2017, the Company held assets in management for the approximate amount of B/.473,895,814 (June 2017: B/.732,856,923) belonging to severance funds, pension funds, retirements and to the pension fund of the Savings and Capitalization System of Pension Public Services (SIACAP), which are detailed below:

	December 2017	June 2017
SIACAP	-	284,378,348
Severance fund	255,275,639	242,904,870
Pension fund (under Law No.10)	212,686,376	198,799,032
Pribanco and Conase Plus	492,610	548,216
Bipan Plus	81,663	581,585
Citibank, N. A.	5,359,526	5,644,872
Total	473,895,814	732,856,923

29. Income tax

Income tax returns of companies incorporated in the Republic of Panama are subject to review by the tax authorities for the last three years, including the period ended December 31, 2017, according to current tax regulations.

According to the Panamanian tax laws, companies are exempt from income tax in respect of profits coming from foreign sources. They are also exempt from income tax, interest earned on deposits in local banks, interest earned on securities and investments in Panamanian State securities issued through the Panama Stock Exchange.

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

As of January 1, 2010, with the entry into force of Law No. 8 of March 15, 2010, Article 699 of the Fiscal Code indicates that entities whose taxable income exceeds one million five hundred thousand balboas (B/.1,500,000) annually must pay income tax at a rate of 25% on the one that is greater between: (1) the net taxable income calculated by the traditional method established in Title I of Book Four of the Fiscal Code, or (2) the net taxable income resulting from applying four point sixty-seven percent (4.67%) to the total taxable income.

Current income tax expense is detailed below:

	December 2017	December 2016
Current income tax	4,589,368	5,517,698
Deferred tax from temporary differences	(1,250,336)	(927,368)
Income tax	3,339,032	4,590,330

The average effective rate of the current income tax is 11.50% (December 2016: 12.00%).

The item with tax effect that composes the deferred tax asset included in the condensed consolidated statement of financial position is the allowance for possible uncollectible loans and the tax effect of goodwill, which is detailed as follows:

	December 2017	June 2017
Balance at beginning of period	10,531,833	9,378,512
Credit losses or gains during the period	1,250,335	1,153,321
Balance at end of period	11,782,168	10,531,833

The deferred tax asset is recognized based on the deductible tax differences considering their past operations and projected taxable income, on which Management's estimates have an influence. Based on actual and projected results, the Company's Management believes that there will be sufficient taxable income to absorb the deferred income tax detailed above.

A current income tax reconciliation is presented below:

	December 2017	December 2016
Profit before income tax	39,900,687	45,927,628
Less: non-taxable income	(41,932,587)	(63,897,310)
Plus: non-deductible expenses	20,336,784	39,883,493
Plus: tax loss in subsidiaries	17,663	95,742
Tax base	18,322,547	22,009,553
Calculating income tax at 25%	4,580,637	5,502,388
Income tax from remittances	8,731	15,310
Current income tax expenses	4,589,368	5,517,698

Transfer pricing:

On August 29, 2012, Law No. 52 entered into force amending the rules related to Transfer Pricing, a pricing regime aimed at regulating transactions for tax purposes made between related parties, so that the considerations received between them are similar to those performed between independent parties. According to those rules, taxpayers that conduct transactions with related parties that have an impact on revenues, costs or deductions in determining taxable income for income tax purposes of the tax period in which it is declared or the operation is carried out, must prepare an annual report on the operations carried out within six months after the end of the corresponding fiscal period (Form 930). Such operations must undergo a study in order to establish that they meet the assumption referred to in the Law.

As of the date of these condensed consolidated financial statements, the Company is in the process of contemplating such analysis; however, according to Management, it is not expected that it will have a significant impact on the estimation of the income tax for the year.

30. Segment information

Management has prepared the following segment information based on the Company's business for its financial analysis:

December 2017

	Banking and financial activities	Insurance	Pension and severance funds	Consolidated total
Interest and commission income	200,586,381	821,311	3,829,452	205,237,144
Interest and provision expenses	118,393,868	-	-	118,393,868
Other income, net	1,052,848	4,232,084	180,096	5,465,028
Other expenses	43,608,894	1,302,657	1,515,362	46,426,913
Depreciation and amortization expenses	5,918,040	12,492	50,172	5,980,704
Profit before income tax	33,718,427	3,738,246	2,444,014	39,900,687
Income tax	2,096,105	686,333	556,594	3,339,032
Net income	31,622,322	3,051,913	1,887,420	36,561,655
Total assets	6,513,951,326	45,879,575	17,584,285	6,577,415,186
Total liabilities	5,957,848,206	16,355,824	1,077,289	5,975,281,319

December 2016

	Banking and financial activities	Insurance	Pension and severance funds	Consolidated total
Interest and commission income	193,999,667	764,068	3,291,991	198,055,726
Interest and provision expenses	103,108,348	-	-	103,108,348
Other income, net	(1,506,984)	4,052,870	270,178	2,816,064
Other expenses	44,289,444	1,189,297	1,430,761	46,909,502
Depreciation and amortization expenses	4,841,695	36,724	47,893	4,926,312
Profit before income tax	40,253,196	3,590,917	2,083,515	45,927,628
Income tax	3,436,192	703,362	450,776	4,590,330
Net income	36,817,004	2,887,555	1,632,739	41,337,298
	June 2017			
Total assets	6,568,468,353	41,499,586	15,268,941	6,625,236,880
Total liabilities	6,030,391,178	15,038,704	589,859	6,046,019,741

31. Bank's companies

Below are the subsidiaries of Global Bank Corporation, their main economic activity, date of incorporation, start of operations, country of incorporation and ownership percentage of these companies.

Companies	Main economic activity	Date of incorporation	Start of operations	Country of incorporation	Ownership %
Factor Global, Inc.	Purchase of discounted invoices	dec-95	1995	Panamá	100%
Global Financial Funds Corporation	Trusts	sep-95	1995	Panamá	100%
Global Capital Corporation	Corporate finance and financial advisory	may-93	1994	Panamá	100%
Global Capital Investment Corporation	Purchase of discounted invoices	jun-93	1993	British Virgin Island	100%
Global Valores, S. A.	Exchange post	aug-02	2002	Panamá	100%
Global Bank Overseas and subsidiaries	Foreign banking	aug-03	2003	Montserrat	100%
Aseguradora Global, S. A.	Suscription and issuance of insurance policies	apr-03	2004	Panamá	100%
Durale Holding, S. A.	Real estate holding and management	jan-06	2006	Panamá	100%
Inmobiliaria Arga, S. A.	Real estate holding and management	dec-09	2009	Panamá	100%
Progreso, S. A.	Management of trust funds	oct-98	2014	Panamá	100%
Fondo Global de Inversiones	Investment company	sep-16	2016	Panamá	100%

32. Regulatory aspects

Agreement 4-2013

Agreement 4-2013, issued by the Superintendency of Banks of Panama, establishes provisions on the management and administration of credit risk inherent to the credit portfolio and off-balance sheet transactions.

Specific provisions

Agreement 4-2013 indicates that specific provisions originate from objective and concrete evidence of impairment. These provisions and their applicable rates must be established for the credit facilities classified in the risk categories: Special Mention 20%; Subnormal 50%; Doubtful 80%; 100% uncollectible.

Based on Agreement 4-2013 issued by the Superintendency of Banks of Panama, the Company classifies loans into five risk categories and determines the minimum provisions required by the agreement in question:

Categories loans

Normal	0%
Special mention	2% to 14.9%
Subnormal	15% to 49.9%
Doubtful	50% to 99.9%
Unrecoverable	100%

Banks must calculate and maintain at all times the amount of the specific provisions determined by the methodology established in Agreement No. 4-2013, which takes into account the outstanding balance of each credit facility classified in one of the categories subject to provision, less the present value of each guarantee available as mitigating risk, applying the net balance exposed to loss of such credit facilities.

In case there is a specific surplus on the provision calculated in accordance with IFRS, this surplus will be accounted for in a regulatory reserve in equity that increases or decreases retained earnings. The balance of the regulatory reserve should not be considered as capital funds for purposes of calculating certain indexes or prudential ratios mentioned in the Agreement.

As of December 31, 2017 and June 30, 2017, the classification of the loan portfolio and reserves for loan losses based on Agreement 4-2013 is summarized on the table below:

December 2017

	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	2,959,509,161	64,679,864	4,205,030	12,100,595	34,881,951	3,075,376,601
Consumer loans	1,873,794,320	44,556,169	22,193,648	7,393,816	21,635,901	1,969,573,854
Other loans	4,715,672	-	-	-	-	4,715,672
Total	4,838,019,153	109,236,033	26,398,678	19,494,411	56,517,852	5,049,666,127
Provision for individual impairment	-	7,234,431	5,078,612	4,138,706	23,906,033	40,357,782
Provision for collective impairment	8,155,089	-	-	-	-	8,155,089

June 2017

	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	3,128,469,341	77,204,921	3,137,754	23,664,562	13,625,154	3,246,101,732
Consumer loans	1,815,801,630	40,702,357	8,427,198	7,914,244	12,095,101	1,884,940,530
Other loans	5,595,935	-	-	-	305	5,596,240
Total	4,949,866,906	117,907,278	11,564,952	31,578,806	25,720,560	5,136,638,502
Provision for individual impairment	-	8,307,693	2,327,424	7,179,929	13,951,513	31,766,559
Provision for collective impairment	11,206,787	-	-	-	-	11,206,787

Agreement 4-2013 defines as overdue any credit facility whose non-payment of contractually agreed amounts is more than 90 days old. This term will be counted as of the date established for the fulfillment of the payments. Operations with a single payment at maturity and overdrafts will be considered past due when the aging of the non-payment exceeds 30 days from the date on which the payment obligation is established.

As of December 31, 2017 and June 30, 2017, the classification of the loan portfolio by maturity profile based on Agreement 4-2013 was as follows:

December 2017	Current	Delinquent	Matured	Total
Corporate	3,021,091,941	1,388,386	52,896,274	3,075,376,601
Consumer	1,874,990,843	48,723,088	45,859,923	1,969,573,854
Others	4,715,672	-	-	4,715,672
Total	4,900,798,456	50,111,474	98,756,197	5,049,666,127

June 2017	Current	Delinquent	Matured	Total
Corporate	3,205,339,532	920,526	39,841,674	3,246,101,732
Consumer	1,814,726,865	44,483,958	25,729,707	1,884,940,530
Others	5,595,935	-	305	5,596,240
Total	5,025,662,332	45,404,484	65,571,686	5,136,638,502

On the other hand, based on Agreement 8-2014, recognition of interest income is suspended based on late payment days on principal and/or interest and the type of credit transaction according to the following:

a) For consumer and business loans, if overdue more than 90 days; and
b) For mortgage loans for housing, if overdue more than 120 days.

Dynamic reserve

Dynamic reserves were established to meet possible future needs of specific provisions based on prudential criteria, as required by Agreement 4-2013 of the Superintendency of Banks of Panama.

As set forth in Agreement 4-2013, the amount of dynamic reserves is obtained by multiplying the risk-weighted assets of loans classified as normal which is calculated according to the following:

- Component No. 1: The amount resulting from multiplying the balance of risk-weighted assets for loans classified as normal by the Alfa coefficient in the table detailed below.

- Component No. 2: The amount resulting from multiplying the quarterly variation of risk-weighted assets for loans classified as normal, and if positive, by the Beta coefficient in the following table. If the variation is negative, the amount is zero.

- Component No. 3: The amount of variation in the balance of specific reserves during the quarter.

The amount of dynamic reserves to be maintained at the end of each quarter is the sum of the two components obtained in numbers 1 and 2 above, less the third component, taking its mathematical sign into account, that is, if the third component is negative, it should be added.

The table for calculating the dynamic reserves is as follows:

Alpha	Beta
1.50%	5.00%

The following restrictions apply to the amount of the dynamic reserve:

- It cannot be greater than 2.5% of risk-weighted assets of loans classified in the normal category.
- It cannot be less than 1.25% of risk-weighted assets of loans classified in the normal category.
- It cannot be less than the amount established in the previous quarter, unless the decrease is the result of a conversion of the specific provisions. The Superintendency of Banks of Panama will establish the criteria for the above conversion.

The dynamic reserve is an equity item that is payable or credited under the retained earnings account. The balance credited of the dynamic reserve is part of the regulatory capital, but cannot replace or compensate the capital adequacy requirements currently established by the Superintendency of Banks of Panama and in the future.

Accounting treatment for differences between prudential standards and IFRSs

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

- The respective figures of the calculations will be performed and compared with the application of IFRSs and prudential standards issued by the Superintendency of Banks of Panama (SBP).

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

- When the use of prudential standards results in greater provisions, IFRS figures will also be recorded in profit or loss and the difference will be taken from retained earnings, which will be moved to a regulatory reserve in equity. In the event the Company does not have sufficient retained earnings, this difference will be presented as an accumulated deficit account.

- The regulatory reserve mentioned in the previous paragraph cannot be reversed against retained earnings while there are differences between IFRSs and prudential standards which originated them.

As of December 31, 2017 and June 30, 2017, the amount of the dynamic provision per component is as follows:

	December 2017	June 2017
Component 1		
Risk-weighted assets (credit facilities - normal category)	4,251,412,218	4,251,412,218
By Alfa coefficient (1.50%)	63,771,183	63,771,183
Component 2		
Beta quarterly variation by Beta coefficient (5.00%)	8,916,960	8,916,960
Component 3		
Less: quarterly change in specific reserves	5,405,144	5,405,144
Total dynamic provision	67,282,999	67,282,999
Restrictions:		
Total dynamic provision		
Minimum (1.25% of risk-weighted assets - category at normal)	53,142,653	53,142,653
Maximum (2.50% of risk-weighted assets - category at normal)	106,285,305	106,285,305

Off-balance sheet operations

The Company has made the classification of off-balance sheet operations and reserves required as of December 31, 2017 and June 30, 2017, based on Agreement No. 4-2013, issued by the Superintendency of Banks of Panama and the same is shown below:

December 2017	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	52,385,246	-	-	-	-	52,385,246
Securities and guarantees	411,435,859	-	-	-	-	411,435,859
Promissory notes	317,345,927	-	-	-	-	317,345,927
Credit lines not used	188,081,923	-	-	-	-	188,081,923
Total	969,248,955	-	-	-	-	969,248,955

June 2017	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	85,590,710	-	-	-	-	85,590,710
Securities and guarantees	478,379,133	-	-	-	-	478,379,133
Promissory notes	369,624,902	-	-	-	-	369,624,902
Credit lines not used	225,143,414	-	-	-	-	225,143,414
Total	1,158,738,159	-	-	-	-	1,158,738,159

Letters of credit, issued guarantees and promissory notes are exposed to credit losses in the event the customer does not fulfill its obligation to pay. The policies and procedures of the Company in approving credit commitments, financial guarantees and promissory notes are the same as those used for lending recorded in the condensed consolidated statement of financial position.

However, most of the letters of credit used are at sight and their payment is immediate.

Credit lines for customer payments correspond to guaranteed loans pending disbursement, which are not shown in the condensed consolidated statement of financial position, but are recorded in the memorandum accounts of the Company.

33. *Foreclosed assets*

As of December 31, 2017, the regulatory provision on foreclosed assets totals B/.753,042 (June 2017: B/.658,923) based on the provisions of Agreement 3-2009 of the Superintendency of Banks of Panama.

34. Approval of the consolidated financial statements

The consolidated financial statements of G. B. Group Corporation and Subsidiaries for the period ended December 31, 2017 were authorized by General Management and approved by the Board of Directors for issuance on February 16, 2018.

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G.B. Group Corporation and Subsidiaries **Annex I**

Consolidated information on condensed consolidated statement of financial position
as of December 31, 2017
(In balboas)

	Total consolidated	Disposals	Sub total consolidated	G.B. Group Corporartion	Propiedades Locales, S.A.	Global Bank Corporation and Subsidiaries
Assets						
Cash and cash equivalents	467,228,206	(3,138,158)	470,366,364	3,138,158	-	467,228,206
Timed deposits with original maturities greater than 90 days	2,355,000	-	2,355,000	-	-	2,355,000
Securities purchased under resale agreements	11,044,809	-	11,044,809	-	-	11,044,809
Securities available for sale	430,157,445	-	430,157,445	-	-	430,157,445
Securities held to maturity	314,201,162	-	314,201,162	-	-	314,201,162
Loans	4,987,131,543	-	4,987,131,543	-	-	4,987,131,543
Property, furniture, equipment and improvements	148,138,382	-	148,138,382	-	-	148,138,382
Other assets	217,158,639	(114,196,422)	331,355,061	100,055,316	14,385,574	216,914,171
Total assets	6,577,415,186	(117,334,580)	6,694,749,766	103,193,474	14,385,574	6,577,170,718
Liabilities and shareholders' equity						
Customer deposits	3,459,681,571	(3,138,158)	3,462,819,729	-	-	3,462,819,729
Deposits in banks	137,758,477	-	137,758,477	-	-	137,758,477
Securities sold under repurchase agreements	60,000,000	-	60,000,000	-	-	60,000,000
Obligations with financial institutions	680,266,236	-	680,266,236	-	-	680,266,236
Marketable securities	27,221,000	-	27,221,000	-	-	27,221,000
Corporate bonds	1,297,546,934	-	1,297,546,934	-	-	1,297,546,934
Subordinated bonds	17,332,559	-	17,332,559	-	-	17,332,559
Perpetual bonds	114,223,940	-	114,223,940	-	-	114,223,940
Other liabilities	181,250,602	(14,142,454)	195,393,056	10,198	14,826,809	180,556,049
Total liabilities	5,975,281,319	(17,280,612)	5,992,561,931	10,198	14,826,809	5,977,724,924
Shareholders' equity:						
Common stock	106,166,822	(98,057,657)	204,224,479	102,234,619	130,000	101,859,860
Excess paid-in capital	2,081,557	(1,996,311)	4,077,868	1,996,311	-	2,081,557
Capital reserve	38,352,194	-	38,352,194	-	-	38,352,194
Regulatoty reserve	74,553,770	-	74,553,770	-	748,078	73,805,692
Retained earnings	380,979,524	-	380,979,524	(1,047,654)	(1,319,313)	383,346,491
Total shareholders' equity	602,133,867	(100,053,968)	702,187,835	103,183,276	(441,235)	599,445,794
Total liabilities and shareholders' equity	6,577,415,186	(117,334,580)	6,694,749,766	103,193,474	14,385,574	6,577,170,718

G.B. Group Corporation and Subsidiaries **Annex II**

Consolidated information on statement of profit or loss and retained earnings (accrued deficit)
for the six-month period ended December 31, 2017
(In balboas)

	Total consolidated	Disposals	Sub total consolidated	G.B. Group Corporartion	Propiedades Locales, S.A.	Global Bank Corporation and Subsidiaries
Interest and commission income						
Interest earned on:						
Loans	161,278,184	-	161,278,184	-	-	161,278,184
Deposits	1,158,030	-	1,158,030	-	-	1,158,030
Investments	18,562,033	-	18,562,033	-	-	18,562,033
Total interest earned	180,998,247	-	180,998,247	-	-	180,998,247
Interest expenses on:						
Deposits	53,806,688	-	53,806,688	-	-	53,806,688
Obligation with financial institutions and repurchase agreements	11,606,951	-	11,606,951	-	-	11,606,951
Marketable securities and bonds	41,321,393	-	41,321,393	-	-	41,321,393
Total interest expenses	106,735,032	-	106,735,032	-	-	106,735,032
	74,263,215	-	74,263,215	-	-	74,263,215
Commissions earned on:						
Loans	10,764,983	-	10,764,983	-	-	10,764,983
Letters of credit	1,604,799	-	1,604,799	-	-	1,604,799
Savings accounts and debit cards	2,661,438	-	2,661,438	-	-	2,661,438
Fiduciary and management services	4,497,637	-	4,497,637	-	-	4,497,637
Others	4,710,040	-	4,710,040	-	-	4,710,040
Total commissions earned	24,238,897	-	24,238,897	-	-	24,238,897
Commission expenses						
Commission expenses	5,792,735	-	5,792,735	-	932	5,791,803
Net commission income	18,446,162	-	18,446,162	-	(932)	18,447,094
Net interest and commission income, before provision	92,709,377	-	92,709,377	-	(932)	92,710,309
Allowance for uncollectible loans	(5,866,101)	-	(5,866,101)	-	-	(5,866,101)
Net interest and commission income, after provision	86,843,276	-	86,843,276	-	(932)	86,844,208
Other income						
Net gain on sale and redemption of securities	1,441,183	-	1,441,183	-	-	1,441,183
Net loss on financial instruments	(359,057)	-	(359,057)	-	-	(359,057)
Insurance premiums, net	4,232,084	-	4,232,084	-	-	4,232,084
Fiduciary and securities brokerage services	93,450	-	93,450	-	-	93,450
Other income	57,368	(99,000)	156,368	-	139,369	16,999
Total other income, net	5,465,028	(99,000)	5,564,028	-	139,369	5,424,659
Total income, net	92,308,304	(99,000)	92,407,304	-	138,437	92,268,867
Other expenses						
Wages and other compensations	23,279,681	-	23,279,681	-	-	23,279,681
Professional fees	2,486,490	-	2,486,490	10,459	25,641	2,450,390
Depreciation and amortization	5,980,704	-	5,980,704		-	5,980,704
Amortization of intangible assets	125,837	-	125,837	-	-	125,837
Advertising and marketing	1,292,253	-	1,292,253	-	-	1,292,253
Maintenance and repairs	4,676,602	-	4,676,602	-	28,506	4,648,096
Leasing	2,478,047	-	2,478,047	-	-	2,478,047
Other taxes	2,439,519	-	2,439,519	717	55,859	2,382,943
Communications and mail	749,773	-	749,773	-	-	749,773
Supplies and stationery	390,755	-	390,755	-	365	390,390
Insurance	389,730	-	389,730	-	1,444	388,286
Surveillance	991,366	-	991,366	-	-	991,366
Others	7,126,860	(99,000)	7,225,860	88	10,887	7,214,885
Total other expenses	52,407,617	(99,000)	52,506,617	11,264	122,702	52,372,651
Profit before income tax	39,900,687	-	39,900,687	(11,264)	15,735	39,896,216
Income tax:						
Current	4,589,368	-	4,589,368	-	1,303	4,588,065
Deferred	(1,250,336)	-	(1,250,336)	-	-	(1,250,336)
Income tax, net	3,339,032	-	3,339,032	-	1,303	3,337,729
Net profit	36,561,655	-	36,561,655	(11,264)	14,432	36,558,487
Retained earnings (accrued deficit) at the beginning of the period	358,648,743	-	358,648,743	(1,036,390)	(1,238,828)	360,923,961
Dividends paid - common stock	(12,287,496)	-	(12,287,496)	-	-	(12,287,496)
Legal reserve	(620,176)	-	(620,176)	-	(94,117)	(526,059)
Complementary tax	(1,323,202)	-	(1,323,202)	-	(800)	(1,322,402)
Retained earning (accrued deficit) at the end of the period	380,979,524	-	380,979,524	(1,047,654)	(1,319,313)	383,346,491