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Global Bank Corporation and Subsidiaries

Consolidated financial statements for the year ended June 30, 2018 and Independent Auditors' Report dated July 24, 2018

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

Global Bank Corporation and Subsidiaries

Independent Auditors' Report and Consolidated Financial Statements as of June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of
Global Bank Corporation

Opinion

We have reviewed the accompanying consolidated financial statements of **Global Bank Corporation and Subsidiaries** ("the Group"), which comprise the consolidated statement of financial position as of June 30, 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements fairly present, in all material aspects, the financial situation of the Group as of June 30, 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for the Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities in accordance with these standards are further described in the "Auditor Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent from the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accounting Professionals (IESBA Code), together with the ethical standards that are relevant to our audit of financial statements in Panama, and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Valuation of investments
See Note 3.6 (Financial assets), Note 5 (Accounting estimates, critical judgments and contingencies), Note 9 (Securities available for sale).

Key audit matter	How the matter was addressed in our audit
Investment securities available for sale represent 7% of total assets as of June 30, 2018. The Group uses external agents to obtain most of the prices for these investments as well as internal valuation techniques for some investments, when there is no available price provided from the external pricing agents. The valuation estimates for these investments are obtained using internal valuation models that involve Management's judgment and the use of some inputs that are not available in active markets. Given that the estimated are sensitive to these judgments, there is a risk that small changes in key assumptions can have a significant impact on their fair value and, therefore, on the reported results.	Our audit procedures in this area include, among others: • We tested the design, implementation and operational effectiveness of key controls on the investment valuation process. • On a sample basis, we have tested the valuation of investments at the end of the year. • We performed a review of the sources and systems used by Management and compared the valuations with valuations obtained from an independent source using a variety of data where there was a degree of subjectivity present. • We have reviewed the classification and accounting treatment of the investments in accordance to the accounting policies detailed in Note 3.6 to the consolidated financial statements. • We have also engaged our specialists in the valuation of financial instruments to test the valuation of investments not quoted in active markets.

Reserve for possible loan losses
See Notes 3.11, 4.2, 5 and 11 of the consolidated financial statements.

Key audit matter

Loans as of June 30, 2018 amounted to B/.4,949,965,635, representing 75% of the Group's assets, and the reserve for possible loan losses is of B/.47,209,225.

The identification of impairment events and determination of the impairment amount require the application of significant judgment by Management to determine the values of the reserve.

The reserve for individual impairment is established relies on the valuation of individual loans based on Managements' judgments and estimates when they indicate a probability of impairment and the estimated present value of expected cash flows.

The collective reserve is established according to the concentration of credits with similar risk characteristics. The probability of default on payment is used to determine the collective reserve and the loss in the event of such default. This creates a challenge for the audit approach, due to the use of complex models to perform these calculations and the application of Management's judgment.

How the matter was addressed in our audit

Our audit procedures in this area include, among others:

- We tested the design, implementation and operational effectiveness of key controls on the loan impairment analysis process.
- We involves specialists to determine that the methodologies used by the Group were appropriate under the framework of the International Financial Reporting Standards.
- For individually-assessed loans for impairment, we performed the following:
  - i. We tested a simple of significant loans not identified as impaired and challenged Management's assumptions about its conclusion that the credit was not impaired by reprocessing the credit rating for the loans using the updated credit and financial information on the credit file and taking into account, when available, public information that indicated an impairment event.
  - ii. We tested a sample of impaired loans and evaluated the impairment calculations made by Management through the: (a) valuation of expected cash flows and/or guarantee flow through the review of the information which gives the Group rights over the guarantee and the assessment by Group's independent appraisers, (b) the assessment of the net realizable value of the appraisal and (c) recalculating the value of the reserves.
- For collectively-assessed loans, we performed the following:
  - i. We tested the control, assisted by our financial information specialists to test the delinquencies of the loan portfolio and to test the accuracy and completeness of the information used for the calculation of the parameters for the establishment of historical losses used in the reserve for possible loan losses in the loan categories.
  - ii. We employed specialists to reprocess the methodologies used by Management in the determination of the portfolio's impairment reserve.

Other Information

Management is responsible for the other information. Other information comprises information included in the Annual Update Report, but does not include the consolidated financial statements and the auditor's report thereon. The Annual Update Report is expected to be available to us after the date of the auditor's report.

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

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

When we read the Annual Update Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the heads of corporate governance and for the Group to address the error and prepare a modified Annual Update Report to be forwarded to The Superintendency of the Securities Market of Panama.

Management's Responsibilities and of those in charge of Governance for the Consolidated Financial Statements

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

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

The Directors are responsible for overseeing the Bank's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

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

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

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

Deloitte signed

July 24, 2018
Panama, Republic of Panama

Global Bank Corporation and Subsidiaries

Consolidated statement of financial position
as of June 30, 2018
(In balboas)

	Notes	2018	2017
Assets			
Cash and bank deposits	7,16	440,947,754	471,737,737
Securities purchased under resale agreements	6,8	3,027,052	3,035,968
Securities available for sale	6,9,16	466,716,054	449,547,696
Securities held to maturity	10	318,365,181	283,883,911
Loans	6,11,17 b	4,949,965,635	5,074,441,450
Property, plant, equipment and improvements	12	157,628,201	138,840,409
Other assets	6,13,28	218,642,547	203,434,286
Total assets		6,555,292,424	6,624,921,457
Liabilities and shareholders' equity			
Liabilities			
Client deposits	6, 15	3,474,058,040	3,404,228,334
Bank deposits		69,286,745	170,855,238
Securities sold under repurchase agreements	14	67,096,800	30,000,000
Obligations with financial institutions	9, 10, 13,16	697,979,013	681,794,390
Marketable securities	17 a	20,658,000	28,500,000
Corporate bonds	11,17 b	1,283,771,949	1,448,359,394
Subordinated bonds	17 c	17,437,777	17,427,342
Perpetual bonds	17 d	115,713,827	112,086,623
Other liabilities	6,18,19	197,762,796	155,138,701
Total liabilities		5,943,764,947	6,048,390,022
Shareholders' equity			
Common shares	20	98,202,657	98,202,657
Excess paid-in capital		2,325,817	2,619,734
Capital reserve		33,590,394	41,505,449
Regulatory reserve	32	90,582,283	73,279,634
Retained earnings		386,826,326	360,923,961
Total shareholders' equity		611,527,477	576,531,435
Total liabilities and shareholders' equity		6,555,292,424	6,624,921,457

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

Global Bank Corporation and Subsidiaries

Consolidated statement of profit or loss
for the year ended June 30, 2018
(In balboas)

	Notes	2018	2017
Interest income	6	359,772,059	345,495,936
Interest expense	6	(215,386,131)	(191,804,180)
Net interest income	21	144,385,928	153,691,756
Commission income		51,001,071	55,765,733
Commission expense		(11,951,327)	(10,589,955)
Net commission income	21	39,049,744	45,175,778
Net interest and commission income	21	183,435,672	198,867,534
Other income	22	9,748,775	9,097,825
		193,184,447	207,965,359
Other expenses			
Impairment allowance	11	11,860,939	19,377,830
Salaries and wages	6	48,143,625	48,529,663
Professional fees		5,649,064	5,301,628
Depreciation and amortization	12, 13	11,813,154	10,566,506
Marketing and advertising		4,273,759	3,506,201
Maintenance and repairs		9,055,160	8,392,676
Leases	25	4,952,122	4,354,058
Other taxes		4,752,719	4,259,889
Other expenses	23	18,913,764	18,649,218
		119,414,306	122,937,669
Profit before income tax		73,770,141	85,027,690
Income tax:			
Current		7,975,253	9,804,914
Deferred		(985,489)	(1,153,321)
Income tax	29	6,989,764	8,651,593
Profit for the year		66,780,377	76,376,097

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

Global Bank Corporation and Subsidiaries

Consolidated statement of profit or loss and other comprehensive income
for the year ended June 30, 2018
(In balboas)

	Note	2018	2017
Profit for the year		66,780,377	76,376,097
Other comprehensive income:			
Items that can be later reclassified to profit or loss:			
Net amount transferred to profit or loss	9	2,331,852	1,936,038
Net change in securities available for sale	9	(10,246,907)	3,993,585
Other comprehensive income for the year		(7,915,055)	5,929,623
Total other comprehensive income for the year		58,865,322	82,305,720

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

Global Bank Corporation and Subsidiaries

Consolidated statement of changes in equity
for the year ended June 30, 2018
(In balboas)

	Notes	Total shareholders' equity	Common shares	Excess paid-in capital	Capital reserve	Regulatory reserve	Retained earnings
Balance as of June 30, 2016		511,870,633	98,202,657	2,131,214	35,575,826	67,394,812	308,566,124
Profit for the year		76,376,097	-	-	-	-	76,376,097
Net changes in securities available for sale		5,929,623	-	-	5,929,623	-	-
Total comprehensive income for the year		82,305,720	-	-	5,929,623	-	76,376,097
Excess paid-in capital - share option plan for employees	24	488,520	-	488,520	-	-	-
Dividends paid - common shares	20	(16,797,267)	-	-	-	-	(16,797,267)
Complementary tax		(1,336,171)	-	-	-	-	(1,336,171)
Dynamic reserve	32	-	-	-	-	4,877,267	(4,877,267)
Regulatory reserve	32	-	-	-	-	1,007,555	(1,007,555)
Balance as of June 30, 2017		576,531,435	98,202,657	2,619,734	41,505,449	73,279,634	360,923,961
Profit for the year		66,780,377	-	-	-	-	66,780,377
Net changes in securities available for sale		(7,915,055)	-	-	(7,915,055)	-	-
Total comprehensive income for the year		58,865,322	-	-	(7,915,055)	-	66,780,377
Excess paid-in capital - share option plan for employees	24	(293,917)	-	(293,917)	-	-	-
Dividends paid - common shares	20	(22,441,181)	-	-	-	-	(22,441,181)
Complementary tax		(1,134,182)	-	-	-	-	(1,134,182)
Regulatory reserve	32	-	-	-	-	1,099,070	(1,099,070)
Excess in regulatory reserve	32	-	-	-	-	16,203,579	(16,203,579)
Balance as of June 30, 2018		611,527,477	98,202,657	2,325,817	33,590,394	90,582,283	386,826,326

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

Global Bank Corporation and Subsidiaries

Consolidated statement of cash flows
for the year ended June 30, 2018
(In balboas)

	Notes	2018	2017
Cash flows from operating activities			
Profit for the year		66,780,377	76,376,097
Adjustments for:			
Depreciation and amortization	12, 13 b	11,813,154	10,566,506
Gain on sale of property, plant and equipment	12	(842,674)	(5,830)
Gain on sale of securities available for sale	9	(2,331,852)	(1,936,038)
Gain on sale of securities held to maturity	10	-	(13,522)
Net loss on financial instruments	22	2,006,628	1,639,641
Impairment allowance	11	11,860,939	19,377,830
Income tax	29	6,989,764	8,651,593
Net interest and commission income	11, 21	(368,010,643)	(345,296,811)
Interest expense	21	215,386,131	191,804,180
Share option plan for employees	24	(293,917)	488,520
		(56,642,093)	(38,347,834)
Changes in:			
Time deposits with maturities greater than 90 days		(1,030,000)	1,480,000
Securities purchased under resale agreements	8	8,916	3,030,378
Loans	11	120,853,460	(391,706,691)
Other assets		(2,350,581)	(22,385,708)
Client deposits		44,258,022	31,882,246
Bank deposits		(101,568,493)	22,369,707
Other liabilities		4,379,812	(14,680,474)
Cash provided by (used in) operating activities		7,909,043	(408,358,376)
Income tax paid		(7,159,485)	(8,501,601)
Interest received		344,825,798	344,422,849
Interest paid		(208,040,828)	(186,110,296)
Net cash flows provided by (used in) operating activities		137,534,528	(258,547,424)
Cash flows from investment activities			
Purchase of securities available for sale	9	(361,582,013)	(276,457,316)
Sale of securities available for sale	9	338,830,452	308,747,648
Purchase of securities held to maturity	10	(36,547,934)	(206,200,687)
Redemption of securities held to maturity	10	2,066,664	6,211,508
Purchase of property, plant and equipment	12	(31,481,402)	(46,039,579)
Proceeds from sales of property, plant and equipment	12	1,974,804	1,055,927
Complementary tax		(1,134,182)	(1,336,171)
Net cash flows used in investment activities		(87,873,611)	(214,018,670)
Cash flows from financing activities			
Payments made for transactions related to repurchase agreements	14	37,096,800	(3,924,966)
Obligations received with financial institutions	16	1,367,495,312	1,246,084,990
Obligations paid with financial institutions	16	(1,351,310,689)	(1,219,108,980)
Proceeds from the isssuance of marketable securities	17 a	23,058,000	28,500,000
Payments for the redemption of marketable securitie	17 a	(30,900,000)	(14,414,000)
Proceeds from the issuance of bonds	17 b,c	3,547,000	788,330,107
Bond redemption	17 b,c	(133,597,826)	(368,539,828)
Dividends paid - common shares	20	(22,441,181)	(16,797,267)
Net cash flows (used in) provided by financing activities		(107,052,584)	440,130,056
Net decrease in cash and cash equivalents		(57,391,667)	(32,436,038)
Cash and cash equivalents at the beginning of the year		440,347,604	472,783,642
Cash and cash equivalents at the end of the year	7	382,955,937	440,347,604

1. General information

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

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

The Bank is a wholly-owned subsidiary of G.B. Group Corporation, incorporated on April 20, 1993 under the laws of the Republic of Panama.

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

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

2. Application of new International Financial Reporting Standards (IFRSs)

2.1 Amendments to IFRSs and new interpretations that are mandatorily effective for this year

There were no new IFRSs or IFRIC interpretations effective for the year beginning on January 1, 2017, that had a significant effect on the consolidated financial statements.

2.2 New standards and amendments not yet adopted

New standards, interpretations and amendments to accounting standards have been issued but are not mandatory for the year ended June 30, 2018 and have not been adopted early. The main changes in these new standards are presented below:

- **IFRS 9 - Financial instruments**:

IFRS 9 issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to include requirements for classification and measurement of financial liabilities and derecognition. In November 2013, it included the new requirements for general hedge accounting.

In July 2014, another revised version of IFRS 9 was issued mainly to include: a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a measurement category at "fair value with changes in other comprehensive income" (FVTOCI) for certain simple debtor instruments.

Key requirements of IFRS 9:

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 - *Financial Instruments: Recognition and Measurement* are subsequently measured at amortized cost or at fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal usually measured at amortized cost at the end of subsequent accounting periods. Debt instruments held in a business model are also measured at fair value through other comprehensive income, whose objective is achieved by collecting the contractual cash flows and selling financial assets and that they have contractual terms of the financial asset that generate cash flows on specific dates that are only payments of principal and interest on the outstanding principal amount. All other investment and equity debts are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (not held for trading) in other comprehensive income.

- With regard to the measurement of financial liabilities that are designated at fair value through profit and loss, IFRS 9 requires that the amount of the change in the fair value of the financial liability attributable to changes in credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income creates or increases an accounting disparity in profit or loss.

  Changes in fair value attributable to credit risk of financial liabilities are not subsequently reclassified to profit or loss. Under IAS 39, the total amount of the change in fair value of financial liabilities designated at fair value with change in results was recognized in profit or loss.

  The following table summarizes the main items in the consolidated statement of financial position that represent financial assets and their classification under IAS 39 and indicates the expected classifications once IFRS 9 is being applied:

	Classification before July 1, 2018 with IAS 39			**Classification as of July 1, 2018 with adoption of IFRS 9**		
Assets	AC*	FVTPL**	FVTOCI***	AC*	FVTPL**	FVTOCI***
Cash and cash equivalents	X			X		
Credit portfolio	X			X		
Debt titles	X	X	X	X	X	X
Equity investments			X		X	X
Derivative instruments		X			X	

  *AC = Amortized cost.
  **FVTPL= Fair value through profit and loss.
  ***FVTOCI = Fair value through other comprehensive income.

- With respect to impairment of financial assets, IFRS 9 requires an impairment model for expected credit loss, as opposed to the model of incurred credit loss impairment in accordance with IFRS 39. The credit loss impairment model requires an entity to account for expected credit losses and their changes in these credit losses expected on each date on which the report is presented to reflect changes in credit risk from the initial recognition. In other words, a credit event is no longer needed before credit losses are recognized.

  IFRS 9 presents significant changes in the assessment of the impairment of the value of financial instruments and therefore their associated risk.

The impairment requirements apply to financial assets measured at amortized cost, and fair value through other comprehensive income (FVTOCI) whose business model has as objective the receipt of contractual flows and/or sales (as well as for accounts receivable from leases, loan commitments and financial guarantees).

The Bank, in accordance with IFRS 9, will estimate the Expected Credit Loss (ECL) based on the present value of the difference between contractual cash flows and expected cash flows of the instrument (in the special case of products such as loan commitments, the Bank will associate the expectation of materialization of the commitment within the expected flows). The ECL amount will be updated on each filing date to reflect changes in the credit risk of the portfolio from initial recognition.

Likewise, a more detailed distinction and assessment of credit loss is proposed in accordance with the inherent credit risk of the instruments. In this way, an evaluation of the credit risk profile of the instrument will determine the classification of an instrument in a given stage, and consequently a specific ECL estimation model:

- Stage 1. Financial instruments that have not been significantly impaired in credit quality since their initial recognition or that have low credit risk at the end of the reporting period. The ECL will be recognized over a 12-month time horizon and interest income on the gross carrying amount of the asset.

- Stage 2. Financial instruments that have significantly deteriorated since their initial recognition (unless they have a low credit risk at the end of the reporting period) but that do not present objective evidence of a loss, default or impairment event. The ECL will be recognized over the life of the asset and interest income will be calculated on the gross carrying value of the asset.

- Stage 3. Instruments that have objective evidence of impairment in the reporting period. The ECL will be recognized over the life of the asset and the interest income will be calculated on the net carrying value of the asset.

The Bank, using a methodical implementation plan carried out the necessary adjustments to IFRS 9, including the required changes to its reserve calculation model, in such a way that it complies with the impairment and expected loss requirements established by the international standards.

During 2017 and 2018, the risk parameters for probability of default (PD) at 12 months and over the life of the obligation (lifetime) were constructed with the respective adjustments and modifications (application and inclusion of “prospective” forward-looking criteria; last instance presumptions, among others). The Bank, aware of the complexity associated with the estimate requirement of a PD over the lifetime of the operation, committed specific resources for the study, construction and implementation of this criterion, considering issues such as models, input data, and parameters, among others. The Bank also developed the required adjustments with respect to the loss given default (LGD) parameters and Exposure at Default or (EAD).

The following table shows the principal differences regarding the parameters and attributes used in the reserve calculation models of the Bank, applying the guidelines called for by IAS 39 or IFRS 9:

	IAS 39	IFRS 9
Model	Loss incurred	Expected loss
Homogenous groups	The following criteria apply: – Line of business – Product – Delinquency	The following criteria apply: – Line of business – Product – Internal classification – Term – Type of guarantee
Individual analysis	Individually significant cases Determining loss through the difference between the recovery flows discounted at present value and total exposure at the date of analysis	Continues without amendment when used for loss incurred.
Collective analysis	Components of the collective analysis of loss incurred: Loss incurred = Exposition * Reserve factor * Loss rate Reserve factor: Represents the migration rate of credits from an initial condition to a final condition. This transition describes the historical experience of the credits of moving from a non-deterioration condition to a non-compliance condition. Depending on the parameters of loss identification and final loss recognition, the provisioning factors applicable to the homogenous groups are calculated through the following methods: – Progressive default rate – Non-accrual interest rate – Write-off rate Loss rate: It is the value of the rate representing the total loss once the credit falls into default.	Component of the collective analysis of expected loss: Stage 1: Exposure to default * Probability of default * Loss rate. Stage 2: Exposure to default * Probability of default * Loss rate. Stage 3: Exposure to default * Loss rate. Exposure to default: Stage 1: Estimate of exposure at 12 months. Stage 2: Estimate of exposure for each future year. Stage 3: Total exposure to analysis date. Probability of default: Stage 1: Probability of default at 12 months according to credit maturity. Stage 2: Probability of default during residual life of exposure.

	Loss rate = 1 – Recovery rate The recovery rate is estimated through the present value of the recovery flows based on the unpaid balance. Recovery flows include recovery amounts resulting from the realization of guarantees, and recoveries via direct payments to the loan.	Loss rate: Does not change when using in loss incurred. Simplified model: Alternative method applied for exposure with a period no greater than 12 months. The expected loss calculation is based in the experience on historic credit losses, and its application is similar to the write-off rate on the model of losses incurred.
Definition of default	– Default greater than 90 days or Default greater than 180 days according to the characteristics of the product. – Non-accrual of interest. – Write-off.	– Default greater than 30 days or default greater than 90 days according to the characteristics of the product. – Write-off.
Macro-economic analysis	NA	Adjustment on the probability of default based on macro-economic forecasts and available prospective information.
Significant increase of risk	NA	– Default greater than 30 days according to the characteristics of the product. – Administrative judgment based on material changes in the risk level as of its origination.

- The new general requirements for hedge accounting uphold the three types of accounting mechanisms for hedge accounting that are currently available in IAS 39. In accordance with IFRS 9, the ideal transaction types for hedge accounting are much more flexible, specifically, as they broaden the types of instruments that are qualified as hedge instruments and the types of risk components of non-financial items ideal for hedge accounting. Additionally, the effectiveness test has been reviewed and replaced by the “economic relationship” principle. A retrospective evaluation is no longer required to measure the effectiveness of the hedge. Improved disclosure requirements were also added in respect of the risk management of an entity.

Impact of the transition to IFRS 9:

The Bank will implement IFRS 9, issued on July of 2014, as of July 1, 2018, which incorporates:

- Fair value through other comprehensive income (FVTOCI) as a new classification and subsequent measurement, applicable to simple-debt financial assets.

- New value-impairment requirements related to the accounting for expected losses, for which the requirements of IAS 39 regarding the accounting for credit losses under an incurred-losses model was applied.

- The new requirements more tightly align hedge accounting with risk management, establishing an approach based on principles for hedge accounting and addressing inconsistencies and weaknesses of the IAS 39 hedge accounting model. As the project on accounting for macro hedges has yet to be completed, entities have been provided with the accounting policy option of either applying the hedge-accounting requirements of IFRS 9 or to continue applying the existing hedge-accounting requirements of IAS 39 for all hedge accounting.

  In accordance with IFRS 9.7.2, the Bank will retroactively apply the transition requirements as of July 1, 2018 and will opt for not re-expressing the consolidated financial statements; in relation with paragraph 7.2.21, it will be applied as an accounting policy, continue to apply IAS 39 hedge accounting requirements instead of Chapter 6 requirements of this Standard.

  The impact of the adoption of IFRS 9 is recognized in the initial equity on July 1, 2018 and it was estimated that based on calculations performed on the financial statements of the subsidiaries as of June 30, 2018. This estimate could change since, as of the end of 2018, the calculations for the ECL models were still being fine-tuned. It is expected that the final impact will be an increase in the reserve.

  The global impacts resulting from the transition to IFRS 9, issued on July 2014, are based on the best estimates at the filing date of the consolidated financial statements. The information provided in this note focuses on material elements; it does not represent an exhaustive list of the expected adjustments.

  The effective date for the application of IFRS 9 is for annual periods beginning on or as of January 1, 2018.

- ***IFRS 15 - Revenue from Contracts with Customers***

This standard establishes a comprehensive framework to determine how, how much and when revenue should be recognized. This policy replaces the existing standards, including IAS 18 – Revenue from Ordinary Activities, IAS 11 – Construction Contracts and IFRIC 13 – Client Loyalty Programs.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

It is expected that a significant proportion of the Company’s revenue is outside the scope of IFRS 15, since most of the revenue come from the operation of financial instruments; therefore, Management estimates that there is no significant financial effect from the implementation of the new standard.

- ***IFRS 16** - **Leases***

IFRS 16 - *Leases* replaces IAS 17. This standard eliminates the classification of leases and states that they should be recognized in a similar manner to financial leases and measured at present value of future lease payments. IFRS is effective for annual periods beginning on or after January 1, 2019. Early adoption is allowed for entities that also adopt IFRS 15 - *Revenue from Contracts with Customers*. The Company is evaluating the impact that IFRS 16 will have in its consolidated statement of financial position and disclosures.

3. Most significant accounting policies

3.1 Statement of compliance

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

3.2 Basis for presentation

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

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

Fair value is the price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using other direct valuation techniques. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if the market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value, for the purposes of measurement and/or disclosure in these consolidated financial statements, is determined on such a basis, except for share-based payment transactions that are within scope of IFRS 2, leasing transactions that are within scope of IAS 17, and measurements that have some similarities to fair value, but are not fair value, such as net realizable value in IAS 2 or value-in-use in IAS 36.

3.3 Basis of consolidation

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

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

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

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

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

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

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

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

Changes in the Banks' ownership interests in existing subsidiaries

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

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

3.4 Foreign currency transactions

Assets and liabilities held in foreign currencies are converted at the exchange rate effective at the date of the consolidated statement of financial position, except for those transactions with contractually agreed fixed exchange rates. Foreign currency transactions are recorded at the exchange rates effective at the dates of the transactions. Gains or losses from foreign currency translation are reflected in the accounts of other income or other expenses in the consolidated statement of profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. The foreign currency differences arising in the retranslation are recognized in profit or loss, except in the case of differences arising from the reconversion of capital instruments available for sale, a financial liability designated as a hedge of the net investment in an operation abroad, or qualified cash flow hedges, which are recognized directly in the consolidated statement of profit or loss.

Functional currency and presentation

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

3.5 Segment reporting

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

3.6 Financial assets

Financial assets are classified into the following specific categories: securities purchased under resale agreements, to securities available-for-sale and loans. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. All purchases or sales of financial assets are recognized on the settlement date.

Securities purchased under resale agreements

Securities purchased under resale agreements are short-term financing transactions with securities as guarantees, in which possession is taken of the securities at a discounted market value and are agreed to be sold back to the debtor at a future date and a set price. The difference between the purchase price and the future selling price is recognized as income under the effective interest rate method.

Securities received as collateral are not recognized in the consolidated financial statement unless there is a breach by the counterparty of the contract, which entitles the Bank to take ownership of the securities.

The market value of these investments is monitored and an additional guarantee is obtain when appropriate to protect against credit exposure.

Securities available for sale

They consist of securities purchased with the intention of keeping them for an indefinite period of time, which can be sold in response to the needs for liquidity or changes in interest rates, or prices of equity instruments.

After initial recognition, securities available-for-sale are measured at their fair value. For those cases where fair value estimates are not reliable, investments are held at cost or amortized cost less any identified impairment loss.

Gains or losses arising from changes in fair value of securities available-for-sale are recognized directly in equity until are discharged the financial assets or impairment is determined. At this time, the cumulative gain or loss, previously recognized in equity is recognized in the results.

Dividends on equity instruments available-for-sale are recognized in the consolidated statement of profit or loss when the entity's right to receive payment is established.

The fair value of an investment in securities is generally determined based on the quoted market price at the date of the statement of financial position. If the quoted market price is not available, the fair value of the instrument is estimated using pricing models or technical calculations of discounted cash flows.

Securities held to maturity

Securities held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank's Management has the intention and ability to hold to maturity. If the Bank sold an amount that is significant (in respect to the total amount of securities held to maturity) of securities held to maturity, the entire category will be reclassified as available for sale. Securities held to maturity are recognized at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective rate basis.

Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except: (a) those that the entity will expect to sell immediately or on a short term, which are classified as trading securities, and those that the entity in its initial recognition designates at fair value through profit or loss; (b) those that the entity, upon initial recognition, designates as available-for-sale, or (c) those for which the holder does not recover substantially all of its initial investment, unless due to credit impairment.

Loans are recognized at amortized cost using the effective interest method less any impairment, with income recognized on an effective rate basis.

Financial leasing

Finance leases consist primarily of leases for equipment and rolling stock, which are reported as part of the loan portfolio at the present value of the lease. The difference between the gross receivable and the present value of the receivable is recognized as unearned interest income, which is amortized to income using a method that reflects a periodic rate of return.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to receive cash flows have expired or when the Bank has transferred financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank does not transfer or retain substantially all the risks and benefits of ownership and control continues with the asset transferred, the Bank recognizes its retained interest in the assets and liabilities related to the amounts that it may have to pay. If the Bank retains substantially all risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a liability secured by the amount received.

On derecognition of a financial asset in its entirety, the difference between the asset´s carrying amount (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the consolidated statement of profit or loss and other comprehensive income.

The Bank conducts transactions through which it transfers assets recognized in its consolidated statement of financial position, but retains all or substantially all of the risks and benefits of the transferred assets or a portion of them. In such cases, the assets transferred are not written-off. Examples of this type of operations are securities lending operations and sale and repurchase transactions.

For transactions in which neither the inherent risks and benefits to the ownership of a financial asset are retained nor substantially transferred, nor the control of the asset is maintained, the asset continues to be recognized to the extent of its continued involvement, determined by the degree of which it is exposed to changes in value of the asset transferred.

In certain transactions, the Bank retains the obligation to assist a transferred financial asset for which it will receive a commission. The assets transferred are derecognized at the time of transfer if they have complied with the characteristics that allow it. An asset or liability is recognized by the service contract depending on the management fee, if this is more than adequate (asset) or is less than adequate (liability) to perform the service.

3.7 Financial liabilities and issued equity instruments

Client deposits

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

Classification as debt or equity

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

Equity instruments

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

Liabilities from financial guarantee contracts

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

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

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

Financing

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

Securities sold under repurchase agreements

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

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Dividends

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

3.8 Compensation of financial instruments

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

3.9 Interest income and expenses

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

3.10 Commission income

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

3.11 Impairment of financial statements

Loans

The Bank assesses at each date of the statement of financial position when there is objective evidence that a financial asset or group of financial assets are impaired.

A financial asset or group of financial assets is impaired and incurred an impairment loss only if there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or financial group that can be estimated reliably.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include observable information on the following loss events:

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- For economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider is granted to the borrower.
- It becoming probable that the borrower will enter bankruptcy or another financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of the existence of an impairment of individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment.

Individually assessed loans

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

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

Loans collectively assessed

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

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

Reversal of impairment

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment event was recognized, the previously recognized impairment loss is reversed by reducing the reserve account for loan losses. The amount of any reversal is recognized in the consolidated statement of profit or loss.

When a loan is uncollectible, it is canceled against the allowance for loans. Such loans are written-off after all the necessary procedures have been considered and the amount of the loss has been determined. Subsequently, recoveries of amounts previously written-off are credited to the reserve.

Restructured loans

Restructured loans are those which have been restructured due to deterioration in the financial condition of the debtor, and where the Bank considers granting a change in the credit parameters. These loans once restructured are kept in the assigned category, regardless if this debtor presents any improvement in its condition after restructuring.

Securities classified as available for sale

At the date of the consolidated statement of financial position, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity and debt instruments classified as available-for-sale, a significant or prolonged decline in fair value of the financial asset that is below its cost is considered in determining whether the financial asset is impaired.

If such evidence exists for financial assets available-for-sale, the accumulated loss measured as the difference between acquisition cost and current fair value, less any impairment loss in the previously recognized financial assets, in profit or loss, is removed from equity and recognized in the consolidated statement of profit or loss.

Impairment losses recognized in the consolidated statement of profit or loss for equity instruments are not reversed through the consolidated statement of profit or loss, rather the amount is recognized in the equity account. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively linked to an event occurring after the impairment loss was recognized in profit or loss, the amount of recovery is reversed through the consolidated statement of profit or loss.

3.12 Securities purchased under resale agreements

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

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

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

3.13 Financial leases receivable

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

The leasing contracts of leases receivable are recorded under the financial method, which are classified as part of the loan portfolio at the present value of the contract. The difference between the lease receivable and the cost of the leased asset is recorded as unearned interest and amortized to income during the period of the lease using the interest rate method.

3.14 Operating leases

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

3.15 Property, plant, equipment and improvements

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

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

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

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

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

3.16 Foreclosed assets for sale

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

Management considered prudent to maintain an allowance to recognize the risks associated with the downgrade of assets that could not be sold, which is recorded against the results of operations.

3.17 Goodwill and intangible assets

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

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

The other intangible assets acquired by the Bank are recognized at cost less accumulated amortization and impairment losses and are amortized up to 40 years under the straight-line method over the estimated useful life. Intangible assets are subject to evaluation or changes in circumstances indicating that the carrying value may not be recoverable.

3.18 Impairment of non-financial assets other than goodwill

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

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

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

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

As of June 30, 2018, Management had not identified impairment loss of its non-financial assets.

3.19 Employee benefits

Severance fund

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

Retirement plan

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

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

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

3.20 Share-based payments

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

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

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

3.21 Income tax

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

Deferred tax

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

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

Complementary dividend tax

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

3.22 Insurance operations

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

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

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

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

3.23 Trust operations

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

3.24 Embedded derivatives

Derivatives may be embedded in another contractual agreement, whether financial or non-financial. In the case of financial contracts, they may be bonds classified as: available-for-sale securities and held-to-maturity securities (host contract). When such contracts contain risks and economic characteristics that are not closely related to the host contract and the host contract is not carried at fair value through profit or loss that embedded component is accounted for separately at fair value and changes in fair value are recognized in the consolidated statement of income or loss.

These embedded derivatives are presented in the consolidated statement of financial position together with the host contract.

3.25 Hedge derivatives

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

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

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

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

Fair value hedge

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

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

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

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

The fair values of derivatives used for hedging purposes are described in Note 19.

3.26 Cash equivalents

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

4. Financial risk management

4.1 Objectives of financial risk management

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

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

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

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

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

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

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

4.2 Credit and counterparty risk

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

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

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

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

Issue of Credit Policies:

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

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

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

Establishment of Authorization Limits:

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

Exposure Limits:

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

Concentration Limits:

To limit concentration per activity or industry, exposure limits have been approved based on capital distribution and the strategic orientation set for the loan portfolio.

The Bank has also limited its exposure in different geographical areas through the country risk policy, the countries in which the Bank is willing to have exposure have been defined based on its strategic plan as well as, the credit and investment limit exposure in such countries based on credit rating of each one.

Counterparty Maximum Limits:

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

Review of Compliance Policies:

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

Review of guarantees:

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

Impairment and provisioning policies:

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

Credit quality analysis

1. Table of the credit quality of financial assets and the impairment allowance

	2018	**2017**
Bank deposits		
Grade 1: Normal	408,147,304	442,566,725
Loans		
Grade 1: Normal	4,614,939,395	4,949,866,906
Grade 2: Special mention	283,040,220	117,907,278
Grade 3: Subnormal	16,652,093	11,564,952
Grade 4: Doubtful	25,885,302	31,578,806
Grade 5: Uncollectible	67,642,972	25,720,560
Gross amount	5,008,159,982	5,136,638,502
Reserve for individual and collective impairment	(47,209,225)	(42,973,346)
Unearned discounted interest	(10,985,122)	(19,223,706)
Carrying value, net	4,949,965,635	5,074,441,450
Renegotiated and restructured loans		
Gross amount	86,650,666	84,179,141
Impairment reserve	(6,403,237)	(7,797,154)
Net amount	80,247,429	76,381,987
Delinquent but not impaired		
31 to 60 days	38,948,191	31,995,934
Sub-total	38,948,191	31,995,934
Individually impaired loans		
Grade 2: Special mention	283,040,220	117,907,278
Grade 3: Subnormal	16,652,093	11,564,952
Grade 4: Doubtful	25,885,302	31,578,806
Grade 5: Uncollectible	67,642,972	25,720,560
Sub-total	393,220,587	186,771,596
Reserve for loan impairment		
Individual	(21,084,711)	(17,436,363)
Collective	(26,124,514)	(25,536,983)
Total impairment reserve	(47,209,225)	(42,973,346)
Off-balance sheet operations		
Grade 1: Normal		
Letters of credit	135,416,413	85,590,710
Endorsements and guarantees	401,781,110	478,379,133
Promissory notes	303,877,041	369,624,902
Unused credit lines granted	167,219,051	225,143,414
	1,008,293,615	1,158,738,159
Securities purchased under resale agreements		
Grade 1: Normal	3,027,052	3,035,968
Investment securities available for sale		
Grade 1: Normal	466,716,054	449,547,696
Securities held to maturity		
Grade 1: Normal	318,365,181	283,883,911

Below is the aging of the delinquency of the loan portfolio:

	2018		
	Global Bank Corporation	**Subsidiaries**	**Total**
Current	4,688,500,581	167,679,084	4,856,179,665
From 31 to 90 days	62,963,584	-	62,963,584
More than 90 days (principal or interest)	71,494,240	-	71,494,240
More than 30 days overdue (maturity principal)	17,522,493	-	17,522,493
Total	4,840,480,898	167,679,084	5,008,159,982

	2017		
	Global Bank Corporation	**Subsidiaries**	**Total**
Current	4,813,522,509	212,139,823	5,025,662,332
From 31 to 90 days	45,404,484	-	45,404,484
More than 90 days (principal or interest)	47,689,411	-	47,689,411
More than 30 days overdue (maturity principal)	17,882,275	-	17,882,275
Total	4,924,498,679	212,139,823	5,136,638,502

2. Analysis by type of loan portfolio

2018	Consumer				Corporate		
	Personal	Credit cards	Vehicles	Mortgages	Commercial	Overdraft	Total loans
Impairment:							
Special mention	12,792,416	4,487,040	4,257,144	43,702,768	201,315,165	16,485,687	283,040,220
Subnormal	1,320,798	1,836,852	500,179	6,991,629	5,354,570	648,065	16,652,093
Doubtful	2,827,257	1,517,511	925,475	7,858,010	12,686,311	70,738	25,885,302
Uncollectible	7,330,086	4,403,279	1,989,692	6,159,568	47,473,952	286,395	67,642,972
Gross amount	24,270,557	12,244,682	7,672,490	64,711,975	266,829,998	17,490,885	393,220,587
Impairment reserve	(7,054,390)	(7,666,999)	(2,474,854)	(1,396,558)	(28,401,269)	(215,155)	(47,209,225)
Carrying value	17,216,167	4,577,683	5,197,636	63,315,417	238,428,729	17,275,730	346,011,362
Not delinquent without impairment/ carrying value	502,568,027	85,700,392	261,960,379	1,080,356,132	2,544,486,916	139,867,549	4,614,939,395
	519,784,194	90,278,075	267,158,015	1,143,671,549	2,782,915,645	157,143,279	4,960,950,757
Less:							
Unearned interest and commissions							(10,985,122)
Total carrying value							4,949,965,635
Guarantees	230,162,137	4,020,449	394,812,171	1,556,711,444	4,914,251,071	195,376,526	7,295,333,798
Renegotiations:							
Gross amount	6,003,650	-	62,421	24,920,137	55,664,458	-	86,650,666
Impairment reserve	(324,040)	-	(8,516)	(143,072)	(5,927,609)	-	(6,403,237)
Net amount	5,679,610	-	53,905	24,777,065	49,736,849	-	80,247,429

2017	Consumer				Corporate		
	Personal	Credit cards	Vehicles	Mortgages	Commercial	Overdraft	Total loans
Impairment:							
Special mention	11,005,058	2,928,082	1,110,519	25,634,551	69,617,194	7,611,874	117,907,278
Subnormal	495,330	1,560,412	173,209	6,333,359	2,835,339	167,303	11,564,952
Doubtful	3,497,836	915,413	553,686	2,966,501	23,603,630	41,740	31,578,806
Uncollectible	4,758,440	2,576,777	1,198,791	3,609,150	12,803,224	774,178	25,720,560
Gross amount	19,756,664	7,980,684	3,036,205	38,543,561	108,859,387	8,595,095	186,771,596
Impairment reserve	(6,183,218)	(5,218,625)	(1,687,422)	(825,032)	(28,290,711)	(768,338)	(42,973,346)
Carrying value	13,573,446	2,762,059	1,348,783	37,718,529	80,568,676	7,826,757	143,798,250
Not delinquent without impairment/ carrying value	480,306,007	78,870,560	263,893,857	985,885,766	2,993,700,327	147,210,389	4,949,866,906
	493,879,453	81,632,619	265,242,640	1,023,604,295	3,074,269,003	155,037,146	5,093,665,156
Less:							
Unearned interest and commissions							(19,223,706)
Total carrying value							5,074,441,450
Guarantees	206,712,750	3,699,470	395,866,487	1,400,649,009	4,747,654,892	204,962,038	6,959,544,646
Renegotiations:							
Gross amount	5,485,150	-	51,237	15,336,896	63,305,858	-	84,179,141
Impairment reserve	(397,066)	-	(9,964)	(77,493)	(7,312,631)	-	(7,797,154)
Net amount	5,088,084	-	41,273	15,259,403	55,993,227	-	76,381,987

Below is the classification of the loan portfolio by maturity profile:

	2018	2017
Current	4,856,179,665	5,025,662,332
Delinquent	62,963,584	45,404,484
Overdue	89,016,733	65,571,686
Total	5,008,159,982	5,136,638,502

The factors of greatest risk exposure and information are detailed below of the impaired assets and assumptions used for these disclosures are the following:

- *Impairment of loans and investments* – The Bank considers that loans and investments are impaired in the following circumstances:
  - There is objective evidence that a loss event has occurred since the initial recognition and the loss event has an impact on the estimated future cash flows of the asset when the consumer loans are past due at 90 days or more.
  - Loans that have been renegotiated due to deterioration in debt status are usually considered as impaired unless there is evidence that the risk of not receiving contractual cash flow has been significantly reduced and there is no other indicator of impairment.
  - Loans that are subject to collective reserve for unreported losses incurred are not considered to be impaired.
  - Impaired debt loans and investments are classified in Grade 2 to 5 in the Bank's internal credit risk rating system.
- *Delinquent loans but not impaired* - Corresponds to those loans where contractually the payment of principal or interest is delayed, but which the Bank considers are not impaired based on the level of guarantees available to cover the balance of the loan.
- *Restructured loans* - Renegotiated loans are those to which a restructuring has been carried out due to impairment in the financial conditions of the debtor, and where the Bank considers granting a change in credit parameters. These loans once restructured are kept in this category, regardless if the debtor presents any improvement in its condition following the restructuring by the Bank.
- *Overdue loans* - Loans are classified as overdue when there is a delay in paying the operation over 90 days. In the case of operations of a single payment at maturity and overdrafts, the operation is classified as overdue with delays over 30 days.
- *Impairment Allowance* – has been established for impairment in accordance with International Financial Reporting Standards (IFRS), which represents an estimate of incurred losses in the loan portfolio. The main components of this allowance are related to individual risks and allowance for loan losses established collectively. The allowance for impairment on investments with constant deterioration recorded at amortized cost is calculated individually based on its fair value and according to the investment policies and other financial assets and credit risk of the Bank. In the case of instruments at fair or available for sale value, the estimated loss is calculated individually based on their market value and/or an individual analysis of the investment and other financial assets based on their estimated cash flows.

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

3. Investment portfolio

The following breakdown analyzes the Bank's investment portfolio exposed to credit risk and its corresponding assessment based on the rating:

2018	Securities available for sale	Securities held to maturity	Securities purchased under resale agreements	Total
With investment rating	87,759,345	271,780,000	-	359,539,345
Standard monitoring	108,881,987	46,585,181	-	155,467,168
Without rating	270,074,722	-	3,027,052	273,101,774
Total	466,716,054	318,365,181	3,027,052	788,108,287

2017	Securities available for sale	Securities held to maturity	Securities purchased under resale agreements	Total
With investment rating	83,643,748	257,609,025	-	341,252,773
Standard monitoring	120,389,120	26,274,886	-	146,664,006
Without rating	245,514,828	-	3,035,968	248,550,796
Total	449,547,696	283,883,911	3,035,968	736,467,575

In the table above, we have detailed the factors of greater risk exposure of the investment portfolio.

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

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

4. Guarantees to reduce credit risk and its financial impact

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

The main types of guarantees taken with respect to different types of financial assets are presented below:

	Consumer				Corporate		
2018	**Personal**	**Credit cards**	**Vehicles**	**Mortgages**	**Commercial**	**Overdraft**	**Total loans**
Loans balance	526,838,584	97,945,075	269,632,870	1,145,068,106	2,811,316,914	157,358,433	5,008,159,982
Guarantees	230,162,137	4,020,449	394,812,171	1,556,711,444	4,914,251,071	195,376,526	7,295,333,798
Exposure % subject to guarantee requirements	44%	4%	146%	136%	175%	124%	146%

	Consumer				Corporate		
2017	**Personal**	**Credit cards**	**Vehicles**	**Mortgages**	**Commercial**	**Overdraft**	**Total loans**
Loans balance	500,062,671	86,851,245	266,930,061	1,024,429,328	3,102,559,713	155,805,484	5,136,638,502
Guarantees	206,712,750	3,699,470	395,866,487	1,400,649,009	4,747,654,892	204,962,038	6,959,544,646
Exposure % subject to guarantee requirements	41%	4%	148%	137%	153%	132%	135%

Residential mortgage loans

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

	2018	**2017**
Residential mortgage loans:		
Less than 50%	69,155,781	63,682,592
51% - 70%	201,809,633	183,107,993
71% - 90%	561,044,137	520,211,013
Over 90%	313,058,555	257,427,730
Total	1,145,068,106	1,024,429,328

Time deposits placed in banks

As of June 30, 2018, the Bank held time deposits in Banks for B/.299,081,011 (2017: B/.357,072,926). Time deposits in banks are kept in local and foreign financial institutions. These institutions have local and/or international ratings, mostly with an international investment grade of at least BBB- by Fitch Ratings or Standard and Poors, or Baa3 by Moody’s.

Credit risk concentration

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

	2018		
	Bank deposits	**Loans**	**Investments**
Concentration by sector:			
Corporate	373,060,741	2,954,430,692	-
Consumer	-	2,046,280,366	-
Government	35,086,563	-	149,699,025
Other sectors	-	7,448,924	638,409,262
	408,147,304	5,008,159,982	788,108,287
Geographical concentration:			
Panama	173,505,624	4,767,648,734	371,314,599
Latin America and the Caribbean	5,019,857	220,944,961	328,050,781
Europe, Asia and Oceania	72,021,970	19,566,287	46,269,216
United States of America	157,599,853	-	42,473,691
	408,147,304	5,008,159,982	788,108,287

	2017		
	Bank deposits	**Loans**	**Investments**
Concentration by sector:			
Corporate	371,162,344	3,246,101,732	-
Consumer	-	1,884,940,530	-
Government	71,404,381	-	136,838,936
Other sectors	-	5,596,240	599,628,639
	442,566,725	5,136,638,502	736,467,575
Geographical concentration:			
Panama	230,007,527	4,873,867,418	314,494,809
Latin America and the Caribbean	20,019,973	235,423,121	332,899,271
Europe, Asia and Oceania	40,182,250	26,497,963	45,975,946
United States of America	152,356,975	850,000	43,097,549
	442,566,725	5,136,638,502	736,467,575

Concentration by sector, items from other loans comprised to credit facilities to banks, cooperatives, insurance companies, financial companies, government, international agencies and non-for-profit organization.

The geographical concentrations of loans are based on the debtor’s location while investments are based on the issuer’s domicile.

Below is an analysis of the gross and net amount of the impairment allowance of the loan portfolio by risk assessment:

2018	**Carrying value**	**Reserves**	**Net amount**
Normal	4,614,939,395	-	4,614,939,395
Special mention	283,040,220	10,782,802	272,257,418
Subnormal	16,652,093	2,918,655	13,733,438
Doubtful	25,885,302	8,156,404	17,728,898
Uncollectible	67,642,972	25,351,364	42,291,608
	5,008,159,982	47,209,225	4,960,950,757
Less: unearned interest and commissions			(10,985,122)
Total			4,949,965,635

2017	**Carrying value**	**Reserves**	**Net amount**
Normal	4,949,866,906	-	4,949,866,906
Special mention	117,907,278	10,605,040	107,302,238
Subnormal	11,564,952	3,176,795	8,388,157
Doubtful	31,578,806	11,518,698	20,060,108
Uncollectible	25,720,560	17,672,813	8,047,747
	5,136,638,502	42,973,346	5,093,665,156
Less: unearned interest and commissions			(19,223,706)
Total			5,074,441,450

4.3 Liquidity risk or financing

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

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

Panamanian Banking Regulations require banks with a general license to keep at all times a minimum balance of liquid assets, as defined in Agreement 4-2008 of the Superintendency of Banks of Panama, of no less than 30% of their deposits. However, due to the severe liquidity policies for covering their operating liabilities, the liquidity of the Bank based on this standard as of June 30, 2018, was 56.31% (2017: 46.65%).

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

Below is the legal liquidity ratio corresponding to the margin of the net liquid assets on deposits received from the Bank's clients at the date of the consolidated financial statements:

	2018	2017
	56.31%	46.65%
Average for the year	49.12%	40.35%
Maximum for the year	61.47%	56.13%
Minimum for the year	42.00%	34.26%

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

2018	Carrying value	Undiscounted cash flows	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits	3,543,344,785	3,561,640,539	2,155,725,012	851,096,681	437,558,085	117,260,761
Repurchase agreements	67,096,800	67,672,920	67,672,920	-	-	-
Obligations with financial institutions	697,979,013	741,790,552	411,816,835	283,548,396	24,030,612	22,394,709
Marketable securities	20,658,000	20,907,946	20,907,946	-	-	-
Corporate bonds	1,283,771,949	1,444,469,573	155,414,972	590,358,075	698,696,526	-
Subordinated bonds	17,437,777	79,140,640	1,181,530	2,363,060	2,363,060	73,232,990
Perpetual bonds	115,713,827	179,159,388	7,835,417	15,670,834	15,670,834	139,982,303
Total	5,746,002,151	6,094,781,558	2,820,554,632	1,743,037,046	1,178,319,117	352,870,763

2017	Carrying value	Undiscounted cash flows	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits	3,575,083,572	3,590,415,431	2,219,004,252	701,939,282	548,609,965	120,861,932
Repurchase agreements	30,000,000	30,151,833	30,151,833	-	-	-
Obligations with financial institutions	681,794,390	708,083,829	594,271,143	85,338,480	24,685,726	3,788,480
Marketable securities	28,500,000	28,957,479	28,957,479	-	-	-
Corporate bonds	1,448,359,394	1,658,527,646	149,682,443	765,865,436	742,979,767	-
Subordinated bonds	17,427,342	80,313,008	1,181,395	2,362,791	2,362,791	74,406,031
Perpetual bonds	112,086,623	181,235,108	7,594,904	15,189,808	15,189,808	143,260,588
Total	5,893,251,321	6,277,684,334	3,030,843,449	1,570,695,797	1,333,828,057	342,317,031

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

4.4 Market risk

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

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

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

The Bank manages its market risk of financial instruments available-for-sale and held to maturity through regular reports to Asset and Liability Committee (ALCO) and Risk Committee which analyzes changes in the prices of each instrument and thus takes action regarding the composition of the portfolio.

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

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

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

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

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

2018	Less than 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Without interest rate	Total
Financial assets:						
Cash and deposits	297,331,011	1,000,000	750,000	-	141,866,743	440,947,754
Securities purchased under resale agreements	1,027,033	2,000,019	-	-	-	3,027,052
Securities available for sale	108,473,497	13,005,872	161,629,401	126,782,503	56,824,781	466,716,054
Securities held to maturity	-	-	40,886,190	277,478,991	-	318,365,181
Loans	3,975,511,841	16,372,777	112,540,841	903,734,523	-	5,008,159,982
Total financial assets	4,382,343,382	32,378,668	315,806,432	1,307,996,017	198,691,524	6,237,216,023
Financial liabilities:						
Client deposits	1,400,893,675	535,287,560	1,173,758,100	23,214,907	410,190,543	3,543,344,785
Repurchase agreements	67,096,800	-	-	-	-	67,096,800
Obligations with financial institutions	697,979,013	-	-	-	-	697,979,013
Marketable securities	14,598,000	6,060,000	-	-	-	20,658,000
Corporate bonds	1,283,771,949	-	-	-	-	1,283,771,949
Subordinated bonds	-	-	-	17,437,777	-	17,437,777
Perpetual bonds	-	-	-	115,713,827	-	115,713,827
Total financial liabilities	3,464,339,437	541,347,560	1,173,758,100	156,366,511	410,190,543	5,746,002,151
Commitments and contingencies	-	-	-	-	1,008,293,615	1,008,293,615
Total interest rate sensitivity	918,003,945	(508,968,892)	(857,951,668)	1,151,629,506	(211,499,019)	491,213,872

2017	Less than 6 month	6 months to 1 year	1 to 5 years	More than 5 years	Without interest rate	Total
Financial assets:						
Cash and deposits	356,552,925	-	520,000	-	114,664,812	471,737,737
Securities purchase under resale agreements	1,035,957	2,000,011	-	-	-	3,035,968
Securities available for sale	76,890,936	5,548,180	177,298,566	179,657,637	10,152,377	449,547,696
Securities held to maturity	-	-	-	283,883,911	-	283,883,911
Loans	4,176,621,580	15,765,449	120,334,675	823,916,798	-	5,136,638,502
Total financial assets	4,611,101,398	23,313,640	298,153,241	1,287,458,346	124,817,189	6,344,843,814
Financial liabilities;						
Client deposits	1,523,310,431	468,724,925	1,134,299,294	22,684,260	426,064,662	3,575,083,572
Repurchase agreements	-	30,000,000	-	-	-	30,000,000
Obligations with financial institutions	582,390,522	99,403,868	-	-	-	681,794,390
Marketable securities	15,900,000	12,600,000	-	-	-	28,500,000
Corporate bonds	1,398,359,394	-	50,000,000	-	-	1,448,359,394
Subordinated bonds	-	-	-	17,427,342	-	17,427,342
Perpetual bonds	-	-	-	112,086,623	-	112,086,623
Total financial liabilities	3,519,960,347	610,728,793	1,184,299,294	152,198,225	426,064,662	5,893,251,321
Commitments and contingencies	-	-	-	-	1,158,738,159	1,158,738,159
Total interest rate sensitivity	1,091,141,051	(587,415,153)	(886,146,053)	1,135,260,121	(301,247,473)	451,592,493

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

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

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

2018	**Increase of 100bps**	**Decrease of 100bps**
Investment securities	(34,193,111)	36,701,381
Loans	(13,518,574)	14,495,053
Time deposits	33,695,764	(34,861,502)
Obligations with financial institutions	6,970,845	(7,182,464)
Marketable securities	72,486	(71,007)
Corporate bonds	88,704	(89,584)
Subordinated and perpetual bonds	5,346,157	(6,112,944)
Net impact	(1,537,729)	2,878,933

2017	**Increase of 100bps**	**Decrease of 100bps**
Investment securities	(38,301,132)	41,309,171
Loans	(12,870,976)	13,803,419
Time deposits	34,095,199	(35,324,992)
Obligations with financial institutions	3,185,507	(3,261,916)
Marketable securities	80,802	(81,259)
Corporate bonds	958,384	(975,254)
Subordinated and perpetual bonds	6,553,057	(7,427,264)
Net impact	(6,299,159)	8,041,905

4.5 Operating Risk

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

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

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

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

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

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

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

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

4.6 Insurance risk

The risk inherent in the insurance contract is that which involves the Probability of a sudden event, unforeseeable, unanticipated and separate from the will of the insured and resulting in a claim by the insured resulting in the reduction of an asset or establishing a liability.

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

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

4.7 Capital management

The Bank manages its capital to ensure:

- Compliance with the requirements set by the Superintendency of Banks of Panama and the Superintendency of the Securities Market of Panama.
- Maintain a strong capital base to support the development of its business.

The Bank as an entity regulated by the Superintendency of Bank of Panama and the Superintendency of the Securities Market of Panama is required to maintain a minimum paid-in capital based on its risk-weighted assets.

Capital adequacy and the use of regulatory capital are monitored by Management based on guidelines and techniques developed by the Superintendency of Banks of Panama. The information requirements are submitted to the regulating entity on a quarterly basis

As of June 30, 2018, the Bank analyzes its regulatory capital applying the standards of the Superintendency of Banks of Panama based on the new agreements, Agreement 1-2015 of February 3, 2015 and Agreement 3-2016 of March 22, 2016, which modified Agreement 5-2008 of October 1, 2008 that established the standards to determine the weighted assets by credit risk and counterparty risk.

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

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

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

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

- *Secondary capital* - Includes hybrid capital and debt instruments, subordinated debt, general allowances for losses, undeclared reserves and asset revaluation reserves. The general reserves for losses are those reserve that are created voluntarily by the Bank's Management, with the purpose of covering losses that have not yet been identified; specific undeclared reserves are those appropriated from profit after tax and are available to cover future unanticipated losses and do not have any liens or encumbrances. Revaluation reserves of assets are comprised as the result of any revaluation performed on the Bank's assets. As of June 30, 2018, the Bank does not hold any reserves from revaluation of assets.

- *Dynamic reserve* – According to the definition in Agreement 4-2013.

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

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

With the adoption of the new agreements, Agreement 1-2015 of February 3, 2015 and Agreement 3-2016 of March 22, 2016, the Bank maintains a regulatory capital position composed, as of June 30, 2018 and 2017, as follows:

	2018	2017
Primary capital (Tier 1)		
Paid-in share capital	98,202,657	98,202,657
Excess paid-in capital	2,325,817	2,619,734
Declared reserves	39,415,421	38,316,351
Retained earnings	386,826,326	360,923,961
Other items of comprehensive income	1,265,714	9,180,769
Dynamic reserve	67,282,999	67,282,999
Sub total	595,318,934	576,526,471
Less: Regulatory adjustments to ordinary primary capital calculations		
Trade funds	(16,762,687)	(16,762,687)
Other intangible assets	(8,971,762)	(9,223,436)
Total primary capital funds	569,584,485	550,540,348
Perpetual bonds	115,713,827	112,086,623
Total additional primery capital funds	115,713,827	112,086,623
Subordinated bonds	17,437,777	17,427,342
Total secondary capital funds	17,437,777	17,427,342
Total capital funds	702,736,089	680,054,313
Risk-weighted assets		
Total risk-weighted assets	4,799,768,752	4,922,882,696
Capital ratios		
Total regulatory capital expressed as a percentage of risk-weighted assets	14.64%	13.81%
Total Tier 1 expressed as a percentage of risk-weighted assets	14.28%	13.46%

5. Accounting estimates, critical judgments and contingencies

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

(a) *Impairment losses on loans* - The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) *Impairment of investments available-for-sale* - The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in their fair value below their cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in stock prices. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

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

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

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

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

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

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

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

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

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

Financial assets/ liabilities	Fair value 2018	Fair value 2017	Fair value hierarchy	Valuation technique(s) and key data inputs	Significant unobservable data input(s)	Relationship between unobservable data inputs and fair value
Corporate shares - domestic	5,868,918	2,013,158	Level 2	Observable market prices in non-active markets.	N/A	N/A
Corporate shares - domestic	171,051	140,406	Level 3	Prices in non-liquid markets.	Calibration prices and dates.	If unobservable data inputs increase, the fair value of the instrument will decrease.
Corporate shares - foreign	735,585	689,860	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt securities - domestic	9,879,250	-	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - domestic	132,764,850	119,536,531	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt securities - domestic	83,147,014	115,107,760	Level 3	Bond prices in non-liquid markets.	Calibration prices and dates.	If unobservable data inputs increase, the fair value of the instrument will decrease.
Private debt securities - foreign	136,817,083	163,303,265	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - foreign	19,900,902	19,578,148	Level 2	Risk-neutral valuation. Discount curves are created based on LIBOR and the probabilities of default for underlying risks are calibrated to CDs quotes.	N/A	N/A
Government debt securities - domestic	5,485,020	5,734,821	Level 1	Observable market prices in active markets.	N/A	N/A
Government debt securities - domestic	14,377,191	14,975,249	Level 2	Observable market prices in non-active markets.	N/A	N/A
Government debt securities - foreign	6,630,170	-	Level 1	Observable market prices in active markets.	N/A	N/A
Corporate domestic shares not listed in Stock Exchange	5,023,230	5,354,570	Level 3	Value per share, adjusted for the fair value of the Issuer's property.	Growth of Issuer's assets, liabilities, equity and profits.	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	(45,303,347)	(7,271,769)	Level 2	Present value. The interest rate swap valuation is achieved by adding the present value of all expected swap cash flows, and later applying a credit adjustment.	N/A	N/A
Interest and exchange rate swaps - Fair value	(8,465,768)	(4,682,939)	Level 2	Present value. The interest rate swap valuation is achieved by adding the present value of all expected swap cash flows, and later applying a credit adjustment.	N/A	N/A
Corporate bonds	1,273,771,949	1,388,359,394	Level 2	Fair value is determined based on the contracted hedge instrument.	N/A	N/A
Time deposits - domestic	198,410,986	205,664,981	Level 2	Fair value is determined based on the contracted hedge instrument.	N/A	N/A
Total	1,841,174,084	2,030,463,435				

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

	2018	
	Available for sale	
	Effect on Equity	
	Favorable	(Unfavorable)
Fixed income instruments	4,969,720	(4,638,591)

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

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

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

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and bank deposits	141,866,743	141,866,743	114,664,811	114,664,811
Time deposits	299,081,011	299,081,011	357,072,926	357,072,926
Securities purchased under resale agreements	3,027,052	3,027,052	3,035,968	3,035,968
Securities held to maturity	318,365,181	312,824,351	283,883,911	291,682,727
Loans	4,949,965,635	4,968,908,318	5,074,441,450	5,079,226,185
Total financial assets	5,712,305,622	5,725,707,475	5,833,099,066	5,845,682,617
Liabilities				
Demand deposits	410,190,543	410,190,543	426,064,662	426,064,662
Savings deposits	643,372,781	643,372,781	637,159,197	637,159,197
Time deposits	2,489,781,461	2,534,564,092	2,511,859,713	2,553,172,075
Securities sold under repurchase agreements	67,096,800	67,096,800	30,000,000	30,000,000
Obligations with financial institutions	697,979,013	709,293,832	681,794,390	684,050,493
Marketable securities	20,658,000	20,726,542	28,500,000	28,770,129
Corporate bonds	10,000,000	10,000,000	60,000,000	60,000,000
Subordinated bonds	17,437,777	17,523,000	17,427,342	17,437,665
Perpetual bonds	115,713,827	115,832,160	112,086,623	113,924,000
Total financial liabilities	4,472,230,202	4,528,599,750	4,504,891,927	4,550,578,221

		Fair value hierarchy 2018		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and bank deposits	141,866,743	-	141,866,743	-
Time deposits	299,081,011	-	299,081,011	-
Securities purchased under resale agreements	3,027,052	-	3,027,052	-
Securities held to maturity	312,824,351	312,824,351	-	-
Loans	4,968,908,318	-	-	4,968,908,318
Total financial assets	5,725,707,475	312,824,351	443,974,806	4,968,908,318
Liabilities				
Demand deposits	410,190,543	-	410,190,543	-
Savings deposits	643,372,781	-	643,372,781	-
Time deposits	2,534,564,092	-	2,534,564,092	-
Repurchase agreements	67,096,800	-	67,096,800	-
Obligations with financial institutions	709,293,832	-	709,293,832	-
Marketable securities	20,726,542	-	20,726,542	-
Corporate bonds	10,000,000	-	10,000,000	-
Subordinated bonds	17,523,000	-	16,443,000	1,080,000
Perpetual bonds	115,832,160	-	115,832,160	-
Total financial liabilities	4,528,599,750	-	4,527,519,750	1,080,000

		Fair value hierarchy 2017		
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and bank deposits	114,664,811	-	114,664,811	-
Time deposits	357,072,926	-	357,072,926	-
Securities purchased under resale agreements	3,035,968	-	3,035,968	-
Securities held to maturity	291,682,727	291,682,727	-	-
Loans	5,079,226,185	-	-	5,079,226,185
Total financial assets	5,845,682,617	291,682,727	474,773,705	5,079,226,185
Liabilities				
Demand deposits	426,064,662	-	426,064,662	-
Savings deposits	637,159,197	-	637,159,197	-
Time 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	4,550,578,221	-	4,499,498,221	51,080,000

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

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

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

	2018	**2017**
Balance at the beginning of the year	121,756,663	114,070,386
Additions	42,875,897	51,715,730
Reclassifications from Level 2 to Level 3	5,675,479	32,430,711
Reclassifications from Level 3 to Level 2	(33,065,930)	(40,017,125)
Net changes in securities	(1,835,976)	1,329,826
Redemptions	(3,109,048)	(37,772,865)
Balance at the end of the year	132,297,085	121,756,663

As of June 30, 2018, Level 3 securities available for sale for B/.43,955,790 (2017: B/.1,153,927), have been recorded at their acquisition cost. On the other hand, other Level 3 investments for B/.88,341,295 (2017: B/.120,602,736) are recorded at fair value.

As of June 30, 2018, Level 3 securities available for sale did not affect the Bank's profits, neither as of June 30, 2017.

The total unrealized gain for Level 3 investments available for sale as of June 30, 2018, is B/.1,102,511 (2017: B/.2,938,486), which is located in item line "net changes in securities available for sale" in the consolidated statement of financial position.

As of June 30, 2018, reclassifications between Level 2 and Level 3 investments in domestic corporate bonds occurred as a result of observed activity in the securities market in which they are listed.

6. Balances and transactions with related parties

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

	2018	2017
Transactions with related parties		
Consolidated statement of financial position		
Assets		
Securities available for sale	20,579,229	20,384,258
Securities purchased under resale agreements	3,000,027	3,000,016
Loans	76,613,318	70,504,512
Accrued interest receivable	276,440	273,079
Other assets	23,923,741	18,563,237
Liabilities		
Client deposits:		
Demand	19,885,963	20,268,817
Savings	10,460,819	10,761,172
Time	75,048,644	71,546,254
Accrued interest payable	169,717	137,423
Commitments and contingencies	41,092,000	43,619,000
Consolidated statement of profit or loss		
Income and expense		
Interest income and dividends	3,600,925	4,872,523
Interest expense	2,914,891	2,468,356

	2018	2017
Transactions with Directors and key Management personnel		
Consolidated statement of financial position		
Assets		
Loans	13,155,329	14,074,741
Accrued interest receivable	43,027	43,479
Liabilities		
Client deposits:		
Demand	3,657,418	2,390,755
Savings	9,624,701	9,650,264
Time	34,483,117	33,489,119
Accrued interest payable	103,538	97,396
Commitments and contingencies	1,521,500	1,511,500
Consolidated statement of profit or loss		
Interest and expense		
Interest income	618,501	578,695
Interest expense	636,692	448,560
Benefits of key Management personnel		
Salaries	3,377,061	3,428,625
Profit sharing	1,620,250	1,557,425
Excess paid-in capital - share option plan for employees	(293,917)	488,520
Allowances for Directors	404,000	355,500
	5,107,394	5,830,070

As of June 30, 2018, collaterals guaranteeing loans to related parties amounted to B/.153,804,485 (2017: B/.120,661,163), which correspond to property, assets and securities.

As of June 30, 2018, no loans with related parties show evidence of impairment. As of June 30, 2018, loans with related parties with maturities between July 2018 and October 2047 and annual interest rates ranging between 0.75% and 9% (2017: with maturities between July 2017 and June 2047 and annual interest rates ranging between 0.75% and 9%).

7. Cash and cash equivalents

	2018	2017
Cash and cash equivalents	32,800,450	29,171,012
Demand deposits	109,066,293	85,493,799
Time deposits	299,081,011	357,072,926
Cash and bank deposits	440,947,754	471,737,737
Less:		
Restricted time deposits	(55,991,817)	(30,420,133)
Time deposits with original maturities greater than 90 days	(2,000,000)	(970,000)
Cash and cash equivalents for purposes of the consolidated statement of cash flows	382,955,937	440,347,604

8. Securities purchased under resale agreements

As of June 30, 2018, securities purchased under resale agreements for B/. 3,027,052 (2017: B/.3,035,968) with maturities in August and September 2018 and February and April 2019 (2017: maturities in September 2017, February and April 2018), are guaranteed by corporate bonds and shares.

9. Securities available for sale

	2018	2017
Securities listed in the stock exchange:		
Corporate shares - domestic	6,039,970	2,153,564
Corporate shares - foreign	735,585	689,860
Private debt securities - domestic	225,791,113	234,644,291
Private debt securities - foreign	156,717,985	182,881,413
Government debt securities - domestic	19,862,211	20,710,070
Government debt securities - foreign	6,630,170	-
Investment funds - foreign	1,960,000	1,960,000
	417,737,034	443,039,198
Securities not listes in the stock exchange:		
Corporate shares - domestic	48,089,227	5,548,952
Government debt securities - domestic	889,793	959,546
	48,979,020	6,508,498
	466,716,054	449,547,696

Securities available for sale accrued interest at a rate ranging from 3.00% to 9.75% (2017: 3.25% to 9.75%).

The net gain on embedded derivatives in securities available for sale as of June 30, 2018, is B/.338,474 (2017: B/.269,666).

As of June 30, 2018, there are securities available for sale for B/.40,240,264 (2017: B/.98,365,292), which guarantee obligations with financial institutions (See Note 16).

As of June 30, 2018, the Bank sold and redeemed investments for B/.338,830,452 (2017: B/.308,747,648) and, as a result, recorded a gain of B/.2,331,852 (2017: B/.1,936,038), which is included in the consolidated statement of profit or loss.

As of June 30, 2018, the Bank has a share capital for B/.43,065,997 (2017: B/.194,383), which are carried at acquisition cost as no fair value has been reliably determined.

10. Securities held to maturity

	2018		2017	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Securities listed in the stock exchange:				
Private debt securities - domestic	3,070,063	3,086,040	3,051,172	3,120,090
Private debt securities - foreign	192,978,267	189,914,358	165,663,418	170,994,287
Government debt securities - domestic	64,545,168	63,363,392	44,391,246	45,512,095
Government debt securities - foreign	57,771,683	56,460,561	70,778,075	72,056,255
	318,365,181	312,824,351	283,883,911	291,682,727

As of June 30, 2018, the annual interest rate earned by securities held to maturity range between 3.125% and 8.875% (2017: 3.125% y 8.875%).

As of June 30, 2018, there are securities held to maturity for B/.35,412,982 (2017: B/.67,730,306), which guarantee obligations with financial institutions. (See Note 16).

11. Loans

	2018			2017		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Domestic:						
Consumer	847,027,010	(17,196,243)	829,830,767	807,875,094	(13,089,265)	794,785,829
Commercial	950,065,116	(12,541,139)	937,523,977	1,018,295,783	(11,391,893)	1,006,903,890
Agricultural	301,328,365	(5,249,600)	296,078,765	320,721,014	(8,854,872)	311,866,142
Pledge	114,284,738	-	114,284,738	127,957,717	-	127,957,717
Overdrafts	130,270,502	(215,155)	130,055,347	134,388,625	(768,338)	133,620,287
Mortgages	1,145,068,106	(1,396,557)	1,143,671,549	1,024,429,328	(825,032)	1,023,604,296
Industrial	254,680,053	(419,298)	254,260,755	268,228,541	(146,412)	268,082,129
Construction	752,925,913	(5,243,531)	747,682,382	798,271,108	(2,594,881)	795,676,227
Financial leasings	39,345,198	(612,178)	38,733,020	45,986,655	(716,800)	45,269,855
Factoring	232,653,733	(4,335,524)	228,318,209	327,713,553	(4,585,853)	323,127,700
Total domestic	4,767,648,734	(47,209,225)	4,720,439,509	4,873,867,418	(42,973,346)	4,830,894,072
Foreign:						
Commercial	105,774,190	-	105,774,190	134,444,828	-	134,444,828
Agricultural	1,169,330	-	1,169,330	1,390,955	-	1,390,955
Industrial	41,098,410	-	41,098,410	43,942,280	-	43,942,280
Construction	47,411,364	-	47,411,364	43,576,140	-	43,576,140
Pledge	17,970,022	-	17,970,022	18,000,022	-	18,000,022
Overdrafts	27,087,932	-	27,087,932	21,416,859	-	21,416,859
Total foreign	240,511,248	-	240,511,248	262,771,084	-	262,771,084
	5,008,159,982	(47,209,225)	4,960,950,757	5,136,638,502	(42,973,346)	5,093,665,156
Less:						
Discounted unearned interest and commissions			(10,985,122)			(19,223,706)
Total			4,949,965,635			5,074,441,450

As of June 30, 2018, the loan portfolio accrued interest at a rate ranging from 0.75% to 24% (2017: 0.75% to 24%).

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

	2018	2017
Fixed rate	617,065,798	696,632,513
Adjustable rate	4,261,042,976	4,156,736,343
Floating rate (Libor or Prime)	130,051,208	283,269,646
	5,008,159,982	5,136,638,502

The movement of the impairment allowance is summarized as follows:

	2018	2017
Balance at the beginning of the year	42,973,346	38,848,585
Reserve charged to expenses	11,860,939	19,377,830
Recoveries	1,931,666	1,754,560
Written-off loans	(9,556,726)	(17,007,629)
Balance at the end of the year	47,209,225	42,973,346

Financial leasing

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

	2018	2017
Less than 1 year	2,096,081	2,260,483
1 to 5 years	37,249,117	43,726,172
Total	39,345,198	45,986,655
Less: unearned interest	(4,284,278)	(5,452,571)
Total financial leasings, net	35,060,920	40,534,084

The breakdown of the estimates of the value of the guarantees of the loan portfolio is as follows:

	2018	2017
Real estate	6,119,794,389	5,784,183,322
Personal property	852,423,784	797,186,164
Deposits in own bank	225,543,478	245,342,228
Securities	56,902,206	87,977,059
Others	40,669,941	44,855,873
Total	7,295,333,798	6,959,544,646

Restructured loans

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

As of June 30, 2018, restructured loans that would otherwise be overdue or impaired amount to B/.86,650,666 (2017: B/.84,179,141).

	2018	**2017**
Consumer:		
Personal loans	6,066,071	5,536,387
Mortgage	24,920,137	15,336,896
Corporate:		
Commercial	55,664,458	63,305,858
Total	86,650,666	84,179,141

12. Property, plant, equipment and improvements

2018	Land	Property	Furniture and office equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At the beginning of the year	4,466,942	59,815,280	21,232,556	58,546,030	2,753,700	8,469,472	47,064,554	202,348,534
Acquisitions or purchases	38,518	2,771,668	1,387,516	4,787,421	436,500	1,155,630	20,904,149	31,481,402
Sales and write-offs	-	(1,298,992)	(900,588)	(2,019,505)	(414,196)	(1,949,621)	-	(6,582,902)
At the end of the year	4,505,460	61,287,956	21,719,484	61,313,946	2,776,004	7,675,481	67,968,703	227,247,034
Accumulated depreciation and amortization:								
At the beginning of the year	-	12,646,763	11,728,391	34,065,165	1,877,174	3,190,632	-	63,508,125
Expense for the year	-	2,146,793	2,510,526	5,699,885	478,386	725,890	-	11,561,480
Sales and write-offs	-	(498,085)	(884,362)	(2,017,735)	(411,054)	(1,639,536)	-	(5,450,772)
At the end of the year	-	14,295,471	13,354,555	37,747,315	1,944,506	2,276,986	-	69,618,833
Net balances	4,505,460	46,992,485	8,364,929	23,566,631	831,498	5,398,495	67,968,703	157,628,201

2017	Land	Property	Furniture and office equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At the beginning of the year	4,466,942	39,278,681	17,361,776	43,869,562	2,840,106	6,490,393	45,309,891	159,617,351
Acquisitions or purchases	-	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 year	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 year	-	10,793,949	9,829,235	29,949,537	1,582,938	3,297,510	-	55,453,169
Expense for the year	-	1,852,814	2,274,597	5,128,566	531,135	526,143	-	10,313,255
Sales and write-offs	-	-	(375,441)	(1,012,938)	(236,899)	(633,021)	-	(2,258,299)
At the end of the year	-	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

13. Other assets

	2018	2017
Accrued interest receivable	53,400,678	38,454,417
Accounts receivable - National Treasury	47,761,958	41,006,784
Accounts receivable - related companies	23,923,741	18,563,237
Goodwill (a)	16,762,687	16,762,687
Deferred income tax	11,517,322	10,531,833
Accounts receivable	11,407,334	14,286,775
Intangible assets (b)	8,971,762	9,223,436
Derivative instrument	8,107,789	10,234,378
Prepaid expenses	7,891,924	6,648,571
Guarantee deposits	7,393,628	7,899,551
Insurance premiums receivable, net	5,903,929	5,049,461
Severance Fund	5,201,406	4,700,181
Tax credit - agrarian subsidy	3,808,380	4,388,426
Claims to insurance companies	1,589,265	1,500,332
Legal deposits	1,202,710	1,285,319
Foreclosed assets	113,476	165,552
Obligations of clients under acceptances	-	1,109,889
Hedge derivative	-	8,297,394
Others	3,684,558	3,326,063
	218,642,547	203,434,286

(a) *Goodwill*

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

Acquisition date	Company acquired	% of interest acquired	2018	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 June 30, 2018, the consolidated statement of financial position holds intangible assets for B/.8,971,762 (2017: B/.9,223,436) of which B/.1,389,963 resulted from the acquisition of the rights to manage the severance funds' portfolio of HSBC Investment Corporation (Panamá), S.A., by Progreso, which have an estimated life of 20 years. As a result of 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 life for the client portfolio of 40 years.

	2018	2017
Cost:		
Right to manage the severance fund portfolio of HSBC		
Investment Corporation (Panamá, S. A.)	1,389,963	1,389,963
Trademarks and other intangibles	8,454,809	8,454,809
	9,844,772	9,844,772
Accumulated amortization:		
Balance at the beginning of the year	(621,336)	(368,085)
Amortization	(251,674)	(253,251)
	(873,010)	(621,336)
Net balance at the end of the year	8,971,762	9,223,436

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

As of June 30, 2018, there were no impairment losses in goodwill or intangible assets. The valuation, made using the method of net discounted future cash flows generated by the acquired assets or business, indicates that the present value of these exceeds the carrying value of goodwill or intangible assets.

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

- To calculate the present value of future cash flows and determine the value of assets and businesses under assessment, the discount rate was used as the estimated average capital cost of the Bank for the periods referred to when the business unit assessed is the Bank. When the flows of asset funds or units are discounted with a profile different to the Bank, the cost of capital applicable to that activity is used in case it differs. The Bank's cost of capital is based on the average interest rates at long-term of AAA instruments in dollars, of the country risk premium and of the return premium for applicable capital investments. The cost of capital used fluctuates between 10% and 15%, and changes over time.

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

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

14. Securities sold under repurchase agreements

As of June 30, 2018, there are repurchase agreements held for B/.67,096,800 (2017: B/.30,000,000), guaranteed by investments with interest rates between 3.26% and 3.69% (2017: 2.02%) with maturities in August and September 2018 (2017: September 2017).

15. Client deposits

2018	Demand	Savings	Time	Total
Economic sector				
Corporate	339,340,193	174,499,957	1,484,712,102	1,998,552,252
Consumer	70,850,350	468,872,824	935,782,614	1,475,505,788
	410,190,543	643,372,781	2,420,494,716	3,474,058,040
Location				
Domestic	371,820,178	588,433,763	2,246,869,513	3,207,123,454
Foreign	38,370,365	54,939,018	173,625,203	266,934,586
	410,190,543	643,372,781	2,420,494,716	3,474,058,040

2017	Demand	Savings	Time	Total
Economic sector				
Corporate	355,309,413	192,016,792	1,451,407,053	1,998,733,258
Consumer	70,755,249	445,142,405	889,597,422	1,405,495,076
	426,064,662	637,159,197	2,341,004,475	3,404,228,334
Location				
Domestic	379,354,451	572,316,672	2,170,005,486	3,121,676,609
Foreign	46,710,211	64,842,525	170,998,989	282,551,725
	426,064,662	637,159,197	2,341,004,475	3,404,228,334

16. Obligations with financial institutions

	2018	2017
As of June 30, 2018, there are loans with other banks for the financing of foreign trade, with maturities until June 2019 and annual interest rates between 2.1397% and 4.2664% (2017: between 1.3962% and 3.6459%).	298,496,799	313,187,608
As of June 30, 2018, there are loans received for the management of short-term liquidity, with renewable maturities starting July 2018 at interest rates between 2.0903% and 2.1500%, reviewed quarterly (2017: interest rate from 2.1760%).	55,006,833	114,673,543
As of June 30, 2018, there are obligations with financial institutions from international organisms to manage long-term liquidity, with renewable maturities between March 2019 and June 2024 and interest rates between 4.258% and 6.015% (2017: between 4.539% and 5.130%).	141,182,444	77,167,461
As of June 30, 2018, there are obligations with financial institutions from foreign banks for working capital, with multiple maturities until March 2021 and annual interest rates between 3.0784% and 4.7038% (2017: between 2.97000% and 3.80572%).	176,292,937	162,265,778
As of June 30, 2018, there are obligations with financial institutions from multilateral financial institutions, with various terms and final maturities starting September 2018 and until December 2018, interest rates range between 2.9613% and 3.79%, reviewed quarterly (2017: between 2.9279% and 5.160%).	27,000,000	14,500,000
	697,979,013	681,794,390

As of June 30, 2018, there are securities available for sale for B/.40,240,264 (2017: B/.98,365,292) and securities held to maturity for B/.35,412,982 (2017: B/.67,730,306), which guarantee these obligations with financial institutions. Additionally, there are restricted time deposits as of June 30, 2018, for B/.55,991,817 (2017: B/.30,395,133), which guarantee these obligations with financial institutions.

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

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

	2018	2017
Balance at the beginning of the year	681,794,390	654,818,380
Obligations with financial institutions	1,367,495,312	1,246,084,990
Payments made	(1,351,310,689)	(1,219,108,980)
Balance at the end of the year	697,979,013	681,794,390

17. Issued financial debt

a) Marketable securities (VCNs for its initials in Spanish)

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

Series	Issuance date	Interest rate	Maturity	2018
C-E	aug-17	3.25%	jul-18	5,000,000
C-F	sep-17	3.25%	aug-18	6,000,000
C-G	sep-17	3.25%	sep-18	2,471,000
C-I	mar-18	3.25%	mar-19	1,560,000
C-J	may-18	2.50%	nov-18	1,127,000
C-K	jun-18	3.25%	may-19	4,500,000
				20,658,000

Series	Issuance date	Interest rate	Maturity	2017
B-Y	aug-16	2.75%	aug-17	2,000,000
B-Z	sep-16	3.00%	sep-17	5,000,000
C-A	sep-16	3.00%	sep-17	7,000,000
C-B	mar-17	3.00%	mar-18	5,000,000
C-C	may-17	2.25%	nov-17	1,900,000
C-D	jun-17	3.00%	jun-18	7,600,000
				28,500,000

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

	2018	2017
Balance at the beginning of the year	28,500,000	14,414,000
Proceeds from issuances	23,058,000	28,500,000
Redemptions	(30,900,000)	(14,414,000)
Balance at the end of the year	20,658,000	28,500,000

b) Corporate Bonds

Type	Interest rate	Maturity	2018	2017
A Series - May 2011 Issuance	6.00%	feb-19	-	50,000,000
E Series - May 2011 Issuance	5.61%	apr-19	10,000,000	10,000,000
A Series - October 2012 Issuance	4.75%	oct-17	-	83,597,826
A Series - June 2014 Issuance	5.64%	nov-18	75,348,549	78,950,141
A Series - October 2014 Issuance	5.13%	oct-19	542,947,228	550,246,084
A Series - October 2016 Issuance	4.50%	oct-21	655,476,172	675,565,343
			1,283,771,949	1,448,359,394

The guarantees granted by the Bank for these issuances are described below:

May 2011 Issuance – The bonds of this issuance are unsecured and do not have special privileges in terms of priority, and are secured solely by the Bank's overall credit.

The Bank, at its discretion, may redeem the bonds, partially or totally, as of the date determined for each series, which may not be less than 2 years after their respective issuance date.

June 2014 Issuance – The bonds of this issue constitute direct, unconditional and unsecure obligations.

October 2014 Issuance – The bonds of this issue constitute direct, unconditional and unsecure obligations.

October 2016 Issuance – The bonds of this issue constitute direct, unconditional and unsecure obligations.

The Bank entered into interest rate and exchange rate swaps on bonds, which qualify as fair value hedges. As of June 30, 2018, the net fair value of the hedge instrument attributable to the hedged risk decreased by B/.53,769,115 (2017: B/.12,196,297).

c) Subordinated bonds

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

Type	Interest rate	Maturity	2018	2017
A Series - August 2010 Issuance	6.75%	aug-70	1,852,000	1,852,000
B Series - November 2010 Issuance	6.75%	aug-70	8,850,005	8,843,639
C Series - December 2010 Issuance	6.75%	aug-70	5,655,772	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
			17,437,777	17,427,342

d) Perpetual bonds

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

Type	Interest rate	2018	2017
A Series - May 2016 Issuance	6.75%	23,791,065	23,756,516
B Series - July 2016 Issuance	6.75%	91,825,762	88,330,107
C Series - May 2018 Issuance	6.75%	97,000	-
		115,713,827	112,086,623

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

	2018	2017
Balance at the beginning of the year	1,577,873,359	1,193,416,574
Proceeds from issuances	3,547,000	788,330,107
Redemption	(133,597,826)	(368,539,828)
Valuation	(34,057,748)	(17,215,404)
Premiums, discounts	3,158,768	(18,118,090)
Balance at the end of the year	1,416,923,553	1,577,873,359

18. Reserves for insurance operations

Unearned premiums

	2018	2017
Balance at the beginning of the year	5,516,386	4,482,563
Issued premiums	23,699,725	25,242,442
Earned premiums	(12,240,436)	(11,170,509)
Balance at the end of the year	16,975,675	18,554,496
Participation of reinsurers	(10,765,132)	(13,038,110)
Unearned premiums, net	6,210,543	5,516,386

Claims pending settlement, estimates	**2018**	**2017**
Balance at the beginning of the year	4,250,783	3,767,279
Claims incurred	8,682,087	7,466,309
Claims paid	(7,978,695)	(6,982,805)
Claims pending settlement, net estimates	4,954,175	4,250,783
	11,164,718	9,767,169

19. Other liabilities

	2018	2017
Hedge derivative (a)	53,769,115	14,763,023
Accrued interest payable	40,612,016	33,266,713
Cashiers' and certified checks	26,185,174	26,008,365
Other accounts payable	23,946,240	34,801,966
Employee benefits and other labor liabilities	14,915,682	14,479,449
Reserves for insurance operations	13,176,524	12,412,644
Legal deposits and others	6,022,104	1,618,234
Factoring guarantee deposits	5,024,276	7,195,809
Other reserves	3,403,568	3,397,731
Special Interest Offsetting Fund (FECI) payable	2,387,876	2,136,398
Accounts payable - Insurance	1,751,115	1,974,017
Income tax payable	184,413	29,313
Outstanding acceptances	-	1,109,889
Others	6,384,693	1,945,150
	197,762,796	155,138,701

a) Hedge Derivatives

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

Fair value hedge

In order to manage its position in the consolidated statement of financial position, the Bank entered into interest rate swap contracts on corporate bonds and clients’ time deposits with a par value of B/.1,455,003,000 as of June 30, 2018 (2017: B/.1,555,003,000) allowing the conversion of the fixed interest rate into a floating rate during each payment period. The Bank has also entered into cross currency swap contracts on corporate bonds with a par value of B/.83,892,617, respectively, allowing the conversion of the fixed interest rate into a floating interest rate and to cover the variability of the exchange rate during each payment period.

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

	2018		
	Remaining maturity of par value		
Accounting method	**More than 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

	2017		
	Remaining maturity of par value		
Accounting method	**More than 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 estimated par value and fair value of the interest rate derivative instruments as of June 30 are presented in the table below. The fair value of the derivative financial instruments is estimated using internal valuation techniques with observable market data.

	2018		2017	
Type	**Par value**	**Fair value**	**Par value**	**Fair value**
Fair value hedge derivatives (for financing)	1,538,895,617	(53,769,115)	1,638,895,617	(12,196,297)
Total	1,538,895,617	(53,769,115)	1,638,895,617	(12,196,297)

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

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

b) Clients' and other withheld guarantees

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

20. Common shares

As of June 30, 2018, the authorized share capital of Global Bank Corporation is comprised of 2,000,000 common shares with no par value, of which 106,500 shares are issued and outstanding in the amount of B/.98,202,657 (2017: B/.98,202,657). As of June 30, 2018, dividends were paid on common shares for a total of B/.22,441,181 (2017: B/.16,797,267).

21. Interest and commission income and expenses

	2018	2017
Interest earned on:		
Loans	321,646,568	312,876,550
Deposits	2,813,601	1,999,584
Investments	35,311,890	30,619,802
	359,772,059	345,495,936
Interest expense on:		
Deposits	(109,228,340)	(100,511,032)
Obligations with financial institutions and repurchase agreements	(24,143,880)	(18,050,919)
Marketable securities and bonds	(82,013,911)	(73,242,229)
	(215,386,131)	(191,804,180)
Net interest income	144,385,928	153,691,756
Commissions earned on:		
Loans	21,329,840	24,058,020
Letters of credit	2,749,974	7,220,418
Savings accounts and debit cards	5,263,776	5,313,850
Fiduciary and management services	9,395,081	8,915,505
Others	12,262,400	10,257,940
	51,001,071	55,765,733
Commission expense	(11,951,327)	(10,589,955)
Net commission income	39,049,744	45,175,778
Net interest and commission income	183,435,672	198,867,534

22. Other income, net

	2018	2017
Insurance premiums, net	8,439,830	7,894,096
Net gain on sale of securities available for sale	2,331,852	1,936,038
Net loss on financial instruments	(2,006,628)	(1,639,641)
Fiduciary and brokerage services, net	(23,235)	152,181
Other income, net	1,006,956	755,151
	9,748,775	9,097,825

23. Other expenses

	2018	2017
Insurance	303,946	1,920,986
Supplies and stationery	818,170	791,063
Utilities	1,519,093	1,380,769
Communications and correspondance	1,676,235	1,746,974
Reserve for redemption of miles	2,000,000	1,599,996
Surveillance	2,007,324	1,926,728
Other operating expenses	5,060,299	4,283,876
Other general expenses	5,528,697	4,998,826
	18,913,764	18,649,218

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

As of June 30, 2018, key executive officers held stock options over 118,466 common shares of the Parent Company (G.B. Group Corporation) (2017: 145,079 of which 39,679 shares may be exercised in 2018; 22,406 may be exercised in 2019; and 56,381 may be exercised in 2020, with an average strike price of B/.39.47 as of June 30, 2018 (2017: B/.38.12). The Bank recognized income for B/.293,917 (2017: expenses for B/.488,520), in the consolidated statement of profit or loss under the line item wages and other personnel expenses and the corresponding entry in equity, which reflects the contribution of capital it will receive from its Parent Company.

25. Operating lease agreements

Lease agreements

The Bank has several operating leases for its premises with periods between 1 to 5 years. For the year ended June 30, 2018, lease payments were for B/.3,653,354 (2017: B/.3,267,952). Minimum lease commitments under all lease agreements for the next five years are broken down below:

	2018	2017
Less than 1 year	3,144,847	3,709,998
Between 1 and 5 years	13,816,048	15,311,816
	16,960,895	19,021,814

26. Commitments and contingencies

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

	2018	2017
Letters of credit	135,416,413	85,590,710
Endorsements and guarantees	401,781,110	478,379,133
Promissory notes	303,877,041	369,624,902
Unused credit lines	167,219,051	225,143,414
Total	1,008,293,615	1,158,738,159

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

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

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

As of June 30, 2018, the Bank has commitments for construction projects of its new facilities for B/.5,235,789 (2017: B/.17,348,915).

27. Management of trust contracts and investment portfolio

As of June 30, 2018, the Bank held trust contracts at the client's risk that amounted to B/.1,685,708,877 (2017: B/.1,515,086,096).

	2018	**2017**
Guarantee Trust	1,575,099,193	1,475,291,680
Management Trust	84,631,961	19,514,783
Investment Trust	21,768,363	16,162,965
Assets - PLICA contract	4,209,360	4,116,668
	1,685,708,877	1,515,086,096

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

28. Management of pension and severance funds

	2018	**2017**
Severance Fund	260,495,666	242,904,870
Retirement Fund (under Law No.10)	216,895,666	198,799,032
Other assets under management	17,169,221	-
Citibank, N. A.	4,823,975	5,644,872
Pribanco and Conase Plus	462,387	548,216
Bipan Plus	81,728	581,585
SIACAP	-	284,378,348
	499,928,643	732,856,923

29. Income tax

Income tax returns of companies incorporated at the Republic of Panama are subject to examination by the tax authorities for the last three years, including the year ended June 30, 2018, according to current fiscal regulations.

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

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

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

The current income tax expense is broken down as follows:

	2018	**2017**
Current income tax	7,975,253	9,804,914
Deferred income tax from temporary differences	(985,489)	(1,153,321)
Income tax	6,989,764	8,651,593

The average effective rate of the current income tax is 10.81% (2017: 11.53%).

The effective tax items that comprise the deferred tax assets included in the consolidated statement of financial position are the reserve for possible loans losses and the goodwill tax effect that are detailed below:

	2018	**2017**
Balance at the beginning of the year	10,531,833	9,378,512
Credit to profit or loss during the year	985,489	1,153,321
Balance at the end of the year	11,517,322	10,531,833

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

A conciliation of the current income tax is presented in the following manner:

	2018	2017
Profit before income tax	73,770,141	85,027,690
Less: non-taxable income	(74,280,459)	(99,346,439)
Plus: non-deductible expenses	32,038,086	53,337,663
Plus: tax loss on subsidiaries	314,803	92,176
Taxable base	31,842,571	39,111,090
Income tax calculated at 25%	7,960,643	9,777,773
Remittance income tax	14,610	27,141
Current income tax expense	7,975,253	9,804,914

Transfer Pricing:

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

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

30. Segment information

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

2018

	Banking and financial activities	Insurance	Pension and severance funds	Consolidated total
Interest and commission income	401,431,786	1,623,593	7,717,751	410,773,130
Interest and reserve expenses	239,198,397	-	-	239,198,397
Other income, net	930,824	8,439,830	378,121	9,748,775
Other expenses	90,398,450	2,583,875	3,009,562	95,991,887
Depreciation and amortization expense	11,435,595	24,109	101,776	11,561,480
Profit before income tax	61,330,168	7,455,439	4,984,534	73,770,141
Income tax	4,386,289	1,480,316	1,123,159	6,989,764
Net profit	56,943,879	5,975,123	3,861,375	66,780,377
Total assets	6,498,461,175	39,549,013	17,282,236	6,555,292,424
Total liabilities	5,926,317,166	16,662,235	785,546	5,943,764,947

2017

	Banking and financial activities	Insurance	Pension and severance funds	Consolidated total
Interest and commission income	393,081,149	1,512,466	6,668,054	401,261,669
Interest and reserve expenses	221,771,965	-	-	221,771,965
Other income, net	746,168	7,894,096	457,561	9,097,825
Other expenses	87,930,479	2,453,100	2,863,005	93,246,584
Depreciation and amortization expense	10,148,110	68,553	96,592	10,313,255
Profit before income tax	73,976,763	6,884,909	4,166,018	85,027,690
Income tax	6,378,215	1,336,883	936,495	8,651,593
Net profit	67,598,548	5,548,026	3,229,523	76,376,097
Total assets	6,568,152,930	41,499,586	15,268,941	6,624,921,457
Total liabilities	6,032,761,459	15,038,704	589,859	6,048,390,022

31. Bank Subsidiaries

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

Companies	Main economic activity	Date of incorporation	Beginning of operations	Country of incorporation	Percentage of ownership
Factor Global, Inc.	Purchase of discounted invoices - Factoring	Dec-95	1995	Panama	100%
Global Financial Funds Corporation	Trust funds	Sep-95	1995	Panama	100%
Global Capital Corporation	Corporate finance and financial advisory	May-93	1994	Panama	100%
Global Capital Investment Corporation	Purchase of discounted invoices - Factoring	Jun-93	1993	British Virgin Islands	100%
Global Valores, S. A.	Stock brokers	Aug-02	2002	Panama	100%
Global Bank Overseas and Subsidiaries	Foreign banking	Aug-03	2003	Montserrat	100%
Aseguradora Global, S. A.	Subscription and issuance of insurance policies	Apr-03	2004	Panama	100%
Durale Holdings, S. A.	Ownership and management of real estate	Jan-06	2006	Panama	100%
Inmobiliara Arga, S. A.	Ownership and management of real estate	Dec-09	2009	Panama	100%
Progreso, S. A.	Trust fund management	Oct-98	2014	Panama	100%
Anverli Investments Corporation	Ownership and management of real estate	Jan-17	2017	Panama	100%

32. Regulatory aspects

Agreement 4-2013

The Superintendency of Banks of Panama issued Agreement 4-2013, which contains therein the reserve established for the management and administration of the credit risk inherent to the loan portfolio and off-balance sheet transactions.

Specific reserve

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

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

Loan categories

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

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

In case there is an excess of specific reserve on the provision calculated in accordance with IFRS, this excess 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 ratios or prudential relationships mentioned in the Agreement.

As of June 30, the classification of the loan portfolio and reserve for possible loan losses based on Agreement 4-2013 is as follows:

2018

	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	2,669,886,509	217,787,283	6,115,668	12,818,931	47,822,301	2,954,430,692
Consumer loans	1,937,604,304	65,252,937	10,536,311	13,066,143	19,820,671	2,046,280,366
Other loans	7,448,582	-	114	228	-	7,448,924
Total	4,614,939,395	283,040,220	16,652,093	25,885,302	67,642,972	5,008,159,982
Reserve for individual impairment	-	21,746,039	3,132,736	11,538,323	26,995,706	63,412,804

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
Reserve for individual impairment	-	8,307,693	2,327,424	7,179,929	13,951,513	31,766,559
Reserve for collective impairment	11,206,787	-	-	-	-	11,206,787

Agreement 4-2013 defines as overdue any facility whose failure to pay the amounts contractually agreed presents payment default over 90 days. This period shall be calculated from the date set for compliance with the payments. Operations with a single payment at maturity and overdrafts will be considered overdue when non-payment exceeds 30 days from the date on which the liability was established.

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

2018

	Current	Delinquent	Overdue	Total
Corporate	2,898,122,425	4,090,974	52,217,293	2,954,430,692
Consumer	1,950,608,658	58,872,610	36,799,098	2,046,280,366
Others	7,448,582	-	342	7,448,924
Total	4,856,179,665	62,963,584	89,016,733	5,008,159,982

2017

	Current	Delinquent	Overdue	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 days late in paying principal and/or interest and the type of credit transaction according to the following:

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

Loans that do not accrue interest as of June 30, 2018, amount to B/.80,151,123 (2017: B/.58,191,561).

Dynamic reserve

Dynamic reserves were established to deal with possible future needs for specific reserve on prudential criteria, as required by Agreement 4-2013 of the Superintendency of Banks of Panama.

As set out in the Agreement 4-2013, the amount of dynamic reserves is obtained by multiplying the risk-weighted assets of loans classified in the normal category which is obtained by calculating the following components:

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

- Component No.2: The amount obtained by multiplying the quarterly variation in risk-weighted assets for loans classified in the normal category; 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 the change 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 items 1 and 2 above less the third component, taking its mathematical sign into account, that is, if the third component is negative, it must be added.

The table for calculating 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 higher 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 reserve. The Superintendency of Banks shall establish the criteria for the above conversion.

The dynamic reserve is an equity account that is paid or credited with a charge to retained earnings. The accredited balance of the dynamic reserve is part of the regulatory capital, but cannot replace or compensate for the capital adequacy requirements set by the Superintendency of Banks currently and in the future.

Accounting treatment for differences between prudential standards and IFRSs

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

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

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

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

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

As of June 30, the amount of the dynamic reserve by component is as follows:

	2018	2017
Component 1		
Risk-weighted assets (credit facilities - normal category)	4,251,412,218	4,251,412,218
Times Alpha Coefficient (1.50%)	63,771,183	63,771,183
Component 2		
Quarterly variation times Beta coefficient (5.00%)	8,916,960	8,916,960
Component 3		
Less: quarterly variation of specific reserves	5,405,144	5,405,144
Total dynamic reserve	67,282,999	67,282,999
Restrictions:		
Total dynamic reserve:		
Minimum (1.25% of risk-weighted assets - normal category)	53,142,653	53,142,653
Maximum (2.50% of risk-weighted assets - normal category)	106,285,305	106,285,305

According to Agreement 4-2013, the restriction of the dynamic reserve establish that the amount cannot be less that the amount established for the previous quarter. The results of the calculation of the amount of the dynamic reserve for the last year were lower, so there are no changes shown with respect to the previous year.

Off-balance sheet operations

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

2018	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	135,416,413	-	-	-	-	135,416,413
Endorsements and guarantees	401,781,110	-	-	-	-	401,781,110
Promissory notes	303,877,041	-	-	-	-	303,877,041
Unused credit lines	167,219,051	-	-	-	-	167,219,051
Total	1,008,293,615	-	-	-	-	1,008,293,615

2017	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	85,590,710	-	-	-	-	85,590,710
Endorsements and guarantees	478,379,133	-	-	-	-	478,379,133
Promissory notes	369,624,902	-	-	-	-	369,624,902
Unused credit lines	225,143,414	-	-	-	-	225,143,414
Total	1,158,738,159	-	-	-	-	1,158,738,159

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

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

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

Foreclosed assets

As of June 30, 2018, the regulatory reserve on foreclosed assets amounts to B/.4,964 (2017: B/.4,964) based on the reserve of Agreement 3-2009 of the Superintendency of Banks of Panama.

Premiums and notes receivable

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

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

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

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

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

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

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

Technical reserves

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

Assets admitted free of encumbrances must cover such capital reserves.

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

	Reserve for statistical deviations		Reserve for catastrophic risk and/or contingencies	
	2018	**2017**	**2018**	**2017**
Balance at the beginning of the year	736,675	614,632	736,675	614,632
Additions	129,346	122,043	129,346	122,043
Balance at the end of the year	866,021	736,675	866,021	736,675

Regulatory Reserve

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

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

The movement of the legal reserve is detailed below:

	2018	**2017**
Balance at the beginning of the year	4,518,323	3,754,855
Additions	840,379	763,468
Balance at the end of the year	5,358,702	4,518,323

Laws and Regulations:

a) *Banking Law*

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

Compliance with the regulatory body

Liquidity ratio

As of June 30, 2018, the liquidity ratio percentage reported to the regulatory body, under the parameters of Agreement 4-2008, was 56.31% (2017: 46.65%) (See Note 4.3).

Capital Adequacy

The Law demands that Banks with a general license must have a minimum paid-in capital or assigned capital of ten million balboas (B/.10,000,000) and equity funds of no less than 8% of their weighted assets, including off-balance sheet operations. As of June 30, 2018, the Group holds consolidated equity funds of approximately 14.64% (2017: 13.81%) of its risk-weighted assets, in accordance with Agreement 1-2015 and Agreement 3-2016. (See Note 4.7).

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

b) *Insurance and reinsurance Law*

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

c) *Securities Law*

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

d) Trust Law

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

e) Financial Leasing Law

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

33. Subsequent events

Events after June 30, 2018 have been assessed to determine the need for possible recognition or disclosure in the accompanying consolidated financial statements. Such events were evaluated up to July 24, 2018, the date on which these consolidated financial statements were made available for issuance. Based on this assessment, it was determined that there were no subsequent events that require recognition or disclosure in the consolidated financial statements.

34. Approval of the consolidated financial statements

The consolidated financial statements of Global Bank Corporation and Subsidiaries for the year ended June 30, 2018 were authorized by General Management and approved by the Board of Directors for their issuance on July 24, 2018.

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