Global Bank Corporation and Subsidiaries

Consolidated financial statements for the year ended June 30, 2023 and Independent Auditors' Report dated July 31, 2023

"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, 2023

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of
Global Bank Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Global Bank Corporation and Subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as of June 30, 2023, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, as well as a summary of the significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements fairly represent, in all material aspects, the consolidated financial situation of the Bank as of June 30, 2023 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for the Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities in accordance with these standards are further described in the Auditor´s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent from the Bank in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accounting Professionals (IESBA Code) and the Professional Code of Ethics for Authorized Public Accountants in Panama (Chapter IV of Law 280 of December 30, 2021), and we have fulfilled our other ethical responsibilities in accordance with those requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Provision for Loan Losses
See Notes 3.6.9, 4.2.2.1.2 and 5 of the consolidated financial statements.

Key Audit Matter

The estimate of the provision for expected credit losses (ECL) on loans is one of the most significant and complex estimates in the preparation of the consolidated financial statements due to the level of judgment applied by Management in measuring loan impairment provisions. As of June 30, 2023, the gross carrying value of the loan portfolio represents 75% of the Bank's assets.

The processes of these models require an increased level of judgment in the determination of ECL considering factors such as the identification and staging of impaired assets or with a significant increase in credit risk, development of the probability of default (PD) and loss given default (LGD), and the use of assumptions such as macroeconomic scenarios and segmentation as well as the migration criteria. In addition, due to the impact of the moratorium applied in the Republic of Panama, the classification criteria per stage require significant judgment. Also, disclosures regarding the Bank's application of IFRS 9 are material to explain the key judgments and material inputs into the ECL results.

How Our Audit Addressed the Key Audit Matter

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

- We have evaluated the key controls on the ECL estimation process.

- We involved specialists to determine that the methodologies used by the Bank were appropriate according to the IFRS framework. We tested the main models with respect to: i) methodology used for the estimation of expected loss parameters; ii) methodology used for the generation of macroeconomic scenarios; iii) information used in the calculation and generation; and iv) criteria for significant increase in credit risk and loan stage classification.

- We involved specialists to: (a) reprocess the methodologies used by Management to determine allowances for ECL, (b) in the evaluation of judgments applied by Management on assumptions regarding current economic conditions and forward-looking analysis considerations that may change the ECL level, based on our experience and knowledge of the industry.

- We tested a sample of significant loans not identified as impaired and challenged Management's assumptions about its conclusion that the loan was not impaired by reviewing the loan risk profile using the updated credit and financial information of the credit file and taking in consideration, when available, public information that will show an impairment event.

- We tested a sample of impaired loans and evaluated the measurement of impairment made by Management through: a) the assessment of the assumptions and judgments that Management made to determine the value of future cash flows expected to be received and (b) recalculating the value of provisions.

- Control tests, assisted by our information systems specialists, to test delinquencies in the loan portfolio and to prove the accuracy and completeness of the information used to calculate the parameters for the establishment of the ECL.

- We assessed whether the disclosures adequately address the uncertainty that exists in determining ECL. In addition, we assessed whether the disclosure of key judgments and assumptions made are sufficiently clear.

Other Information

Management is responsible for the other information. The other information comprises information included in the Annual Update Report, but does not include the consolidated financial statements and the Auditor's Report on them. 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 those charged with governance of the Bank and the Bank is required to address the misstatement and prepare an amended Annual Update Report for submission to the Superintendency of the Securities Market.

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

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

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

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

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

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

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

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

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

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

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

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

- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain 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 determine 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.

Other Legal and Regulatory Requirements

In compliance with Law 280 of December 30, 2021, which regulates the profession of the Certified Public Accountant in the Republic of Panama, we declare the following:

- That the management, execution and supervision of this audit work has been carried out physically in Panamanian territory.
- The audit team that has participated in the audit referred to in this report is comprised by José Araúz Acosta, Partner and Doralis Oda, Manager.

(Signed by Deloitte)

Deloitte, Inc.

July 31, 2023
Panama, Republic of Panama

(Signed by José Araúz Acosta)

José Araúz Acosta
CPA No. 0017-2023

Global Bank Corporation and Subsidiaries

Consolidated statement of financial position
as of June 30, 2023
(In balboas)

	Notes	2023	2022
Assets			
Cash and bank deposits	7,16	354,965,856	422,163,231
Securities purchased under resale agreements	8	3,547,807	285,200
Investments in securities, net	6,9,16	1,053,410,069	1,079,204,941
Loans, net	6,10	6,212,554,475	6,138,222,161
Property, furniture, equipment and improvements	11	190,418,187	197,759,650
Rights-of-use assets	12	13,301,035	15,584,822
Other assets	6,13,30	584,781,470	547,376,430
Total assets		8,412,978,899	8,400,596,435
Liabilities and equity			
Liabilities			
Customer deposits	6,14	5,205,576,287	5,178,659,636
Deposits from banks		82,919,955	64,413,383
Accrued interest payable		33,051,550	32,169,806
Total deposits		5,321,547,792	5,275,242,825
Securities sold under repurchase agreements	15	70,009,751	93,665,393
Obligations with financial institutions	9,16	1,582,877,582	1,488,606,294
Marketable securities (VCNs)	17	-	16,595,000
Corporate bonds	18	388,450,729	439,235,300
Perpetual bonds	19	177,965,873	177,495,857
Accrued interest payable		25,606,793	13,211,416
Total borrowings		2,244,910,728	2,228,809,260
Lease liabilities	12	15,302,729	17,277,420
Other liabilities	6,20,21	119,464,406	119,112,591
Total liabilities		7,701,225,655	7,640,442,096
Equity			
Common shares	22	270,202,657	270,202,657
Excess paid-in capital	26	2,252,695	1,974,519
Capital reserves	33	44,175,479	43,269,167
Regulatory reserves	33	104,142,557	101,983,796
Fair value reserves		(37,365,976)	(37,694,923)
Retained earnings		328,345,832	380,419,123
Total equity		711,753,244	760,154,339
Total liabilities and equity		8,412,978,899	8,400,596,435

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, 2023
(In balboas)

	Notes	2023	2022
Interest income	6	454,333,887	419,112,916
Interest expense	6	(281,836,291)	(238,053,406)
Net interest income	23	172,497,596	181,059,510
Commissions earned		66,344,055	57,798,314
Commission expenses		(22,088,949)	(19,374,865)
Net commission income	23	44,255,106	38,423,449
Net interest and commission income, before allowances	23	216,752,702	219,482,959
Allowance for uncollectible loans	4.2.2.1.2	48,957,742	59,032,479
Allowance (reversal of allowance) for country risk		363,938	(905,789)
Allowance for investments	4.2.2.2	474,038	2,897,059
		49,795,718	61,023,749
Net interest and commission income, after allowances		166,956,984	158,459,210
Other income	24	22,011,709	13,838,072
Other expenses			
Salaries and other remuneration	6	61,331,282	59,798,894
Professional fees		10,360,389	9,285,792
Depreciation and amortization	11,12,13	18,258,300	20,767,901
Advertising and publicity		3,117,156	2,575,329
Maintenance and repairs		11,309,827	10,603,499
Leases		4,015,359	3,306,085
Other taxes		6,222,827	6,408,887
Other expenses	25	23,382,723	23,868,631
		137,997,863	136,615,018
Profit before income tax		50,970,830	35,682,264
Income tax:			
Current		3,825,471	3,667,996
Deferred		(360,567)	(5,249,226)
Income tax expense (benefit)	30	3,464,904	(1,581,230)
Profit for the year		47,505,926	37,263,494

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, 2023
(In balboas)

	2023	2022
Profit for the year	47,505,926	37,263,494
Other comprehensive income:		
Items that could be reclassified subsequently to profit or loss		
Net amount transferred to profit or loss	(388,602)	(1,154,420)
Allowance for investments	340,923	1,611,221
Net change in valuation of investments at fair value through other comprehensive income	376,626	(41,507,867)
Other comprehensive income for the year	328,947	(41,051,066)
Total other comprehensive income for the year	47,834,873	(3,787,572)

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, 2023
(In balboas)

	Notes	Total shareholder's equity	Common shares	Excess paid-in capital	Capital reserves	Regulatory reserves	Fair value reserves	Retained earnings
Balance as of June 30, 2021		789,718,580	270,202,657	1,755,574	42,382,907	99,613,232	3,356,143	372,408,067
Profit for the year		37,263,494	-	-	-	-	-	37,263,494
Allowance for investments		1,611,221	-	-	-	-	1,611,221	-
Net change in valuation of investments at fair value through other comprehensive income		(42,662,287)	-	-	-	-	(42,662,287)	-
Total comprehensive income for the year		(3,787,572)	-	-	-	-	(41,051,066)	37,263,494
Excess paid-in capital - employee stock option plan	26	218,945	-	218,945	-	-	-	-
Dividends paid - common shares	22	(23,664,251)	-	-	-	-	-	(23,664,251)
Complementary tax		(540,609)	-	-	-	-	-	(540,609)
Regulatory reserves	33	-	-	-	-	2,370,564	-	(2,370,564)
Capital reserves	33	-	-	-	886,260	-	-	(886,260)
Acquisition of subsidiary		(1,790,754)	-	-	-	-	-	(1,790,754)
Balance as of June 30, 2022		760,154,339	270,202,657	1,974,519	43,269,167	101,983,796	(37,694,923)	380,419,123
Profit for the year		47,505,926	-	-	-	-	-	47,505,926
Allowance for investments		340,923	-	-	-	-	340,923	-
Net change in valuation of investments at fair value through other comprehensive income		(11,976)	-	-	-	-	(11,976)	-
Total comprehensive income for the year		47,834,873	-	-	-	-	328,947	47,505,926
Excess paid-in capital - employee stock option plan	26	278,176	-	278,176	-	-	-	-
Dividends paid - common shares	22	(96,002,266)	-	-	-	-	-	(96,002,266)
Complementary tax		(511,878)	-	-	-	-	-	(511,878)
Regulatory reserves	33	-	-	-	-	2,158,761	-	(2,158,761)
Capital reserves	33	-	-	-	906,312	-	-	(906,312)
Balance as of June 30, 2023		711,753,244	270,202,657	2,252,695	44,175,479	104,142,557	(37,365,976)	328,345,832

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, 2023
(In balboas)

	Notes	2023	2022
Cash flows from operating activities			
Profit for the year		47,505,926	37,263,494
Adjustments for:			
Depreciation and amortization	11,12,13	18,258,300	20,767,901
Gain on sale of property, furniture and equipment		(667,208)	(178,437)
Disposal of property, furniture and equipment		5,296,399	215,502
Gain on sale of securities at fair value through profit or loss, net	9, 24	(388,602)	(1,154,420)
(Gain) loss on instruments at fair value through profit or loss, net	24	(60,788)	680,871
Allowance for uncollectible loans		48,957,742	59,032,479
Allowance for investments		474,038	2,897,059
Income tax	30	3,464,904	(1,581,230)
Net interest income	23	(454,333,887)	(419,112,916)
Interest expense	23	281,836,291	238,053,406
Employee stock option plan	26	278,176	218,945
		(49,378,709)	(62,897,346)
Changes in:			
Deposits greater than 90 days and restricted	7	(1,048,266)	27,424,348
Securities purchased under resale agreements		(3,262,607)	21,101
Loans		(127,381,949)	(201,741,432)
Other assets		(37,063,725)	(52,587,149)
Customer deposits		26,916,651	(10,799,595)
Bank deposits		18,506,572	19,503,249
Other liabilities		(4,230,079)	1,189,437
Cash used in operations		(176,942,112)	(279,887,387)
Income tax paid		(2,577,066)	(1,687,772)
Interest received		458,708,013	432,355,470
Interest paid		(268,559,170)	(247,489,947)
Net cash flow provided by (used in) operating activities		10,629,665	(96,709,636)
Cash flows from investing activities			
Purchase of securities at fair value through other comprehensive income		(251,465,189)	(427,600,808)
Sales of securities at fair value through other comprehensive income		301,697,831	438,213,712
Purchase of investments at fair value through profit or loss		(27,239,077)	(3,470,625)
Sales of investments at fair value through profit or loss		157,944	-
Purchase of investments at amortized cost		(16,311,184)	(36,519,100)
Amortization of investments at amortized cost		18,866,685	16,147,228
Purchase of property, furniture and equipment	11	(12,386,108)	(19,038,187)
Proceeds from sales of property, furniture and equipment		667,208	178,437
Net cash flows provided by (used in) investing activities		13,988,110	(32,089,343)
Cash flows from financing activities			
Payments made under repurchase agreement transactions	15	(23,655,642)	-
Proceeds from securities sold under repurchase agreements	15	-	93,665,393
Obligations received from financial institutions	16	1,766,870,623	1,844,685,880
Obligations paid to financial institutions	16	(1,670,398,393)	(1,241,689,596)
Proceeds from issuance of marketable securities	17	9,545,000	16,595,000
Payments on redemption of marketable securities	17	(26,140,000)	(6,850,000)
Proceeds from issuance of bonds	19	600,000	16,601,000
Redemption of bonds	19	(51,306,097)	(625,806,718)
Dividends paid on common shares	22	(96,002,266)	(23,664,251)
Lease payment		(1,974,691)	(2,860,865)
Complementary tax		(511,878)	(540,609)
Net cash flow (used in) provided by financing activities		(92,973,344)	70,135,234
Net decrease in cash and cash equivalents		(68,355,569)	(58,663,745)
Cash and cash equivalents at beginning of the year		415,326,050	473,989,795
Cash and cash equivalents at end of the year	7	346,970,481	415,326,050

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

1. General information

Global Bank Corporation (the “Bank”) is incorporated in the Republic of Panama and began operations in June 1994 under a general banking license issued by the Superintendency of Banks of Panama, which allows it to carry out banking business in Panama or abroad. Its main activity is the commercial and consumer banking business.

The main office is located at Santa Maria Business District, Global Bank Tower, Panama, Republic of Panama.

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

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

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

Resolution SBP-0019-2021 of March 10, 2021 of the Superintendency of Banks of Panama authorized the merger by absorption of the banking entities Global Bank Corporation and Factor Global, S.A., all belonging to the same economic group of which Global Bank Corporation is the surviving company. The effective date of the merger was June 22, 2021.

The principal activity of the Subsidiaries is described in Note 32.

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

2.1 Standards and interpretations adopted without effects on the consolidated financial statements

For the year ended June 30, 2023, the following standards IFRSs and interpretations (hereinafter “IFRICs”) became effective and did not have an impact on the Bank's consolidated financial statements.

2.2 New and amended standards issued but not yet effective

New standards, interpretations and amendments to accounting standards have been issued, but are not mandatory for the year ended June 30, 2023, and have not been adopted early by the Bank.

The main changes of these new standards are presented below:

IFRS 17 – Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 - *Insurance contracts*.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB issued *Amendments to IFRS 17* to address concerns and implementation challenges after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after January 1, 2023. At the same time, the IASB issued the Extension of the Temporary Exemption from the Application of IFRS 9 (*Amendments to IFRS 4*) that extends the fixed expiration date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after January 1, 2023.

IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

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

Amendments to IAS 1 - Classification of liabilities as current or non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the consolidated statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of «settlement» to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

Management does not expect the adoption of the above standard to have a material impact on the Bank's consolidated financial statements in future periods:

Amendments to IAS 12 "Taxes"

The IASB has issued an amendment to IAS 12 to clarify how deferred taxes arising from transactions such as leases or decommissioning obligations should be accounted for. The amendments clarify that entities are required to recognize deferred taxes on leases and provisions for decommissioning. The purpose of the amendments has been to reduce diversity in the reporting of deferred tax information in such transactions. The amendments are effective January 1, 2023 with early application permitted.

Amendments to IFRS 16 "Leases"

The IASB has published an amendment to IFRS 16 detailing the accounting for sale transactions with subsequent leaseback. According to the amendment to the standard, the seller - lessee must calculate the value of the lease liability in such a way that it does not recognize any gain or loss related to the retained right of use. The amendment enters into force on January 1, 2024 allowing its early application.

Amendments to IFRS 10 – Consolidated financial statements and IAS 28 – Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted. The Bank's Management do not anticipate that the application of these amendments may have an impact on the consolidated financial statements in future periods.

Amendments to IAS 1 - Presentation of Financial Statements and IFRS Practice Statement 2 - Making Materiality Judgments - Disclosure of Accounting Policies

The amendments change the requirements of IAS 1 with respect to the disclosure of accounting policies. The amendments replace all instances of the term "significant accounting policies" with "material accounting policy disclosures." Information about accounting policies is material if, when considered together with other information included in a company's financial statements, it could reasonably be expected to influence the decisions that primary users of general purpose consolidated financial statements make on the basis of those financial statements.

The supporting paragraphs of IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information related to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the "four-step materiality process" described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023, early application permitted and are applied prospectively. The Amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. According to the new definition, accounting estimates are “monetary amounts in the financial statements that are subject to measurement uncertainty.”

The definition of change in accounting estimates was eliminated. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate resulting from new information or new developments is not the correction of an error.
- The effects of a change in an input or measurement technique used to develop an accounting estimate are changes in accounting estimates if they are not the result of correction of prior period errors. The Board added two examples (Examples 4-5) to the accompanying Guidance on the implementation of IAS 8. The Board has removed one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after January 1, 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with early application permitted.

Amendments to IAS 12 – Income Taxes - Deferred Taxes related to Assets and Liabilities Arising from a Single Transaction

The amendments introduced a new exception to the exemption from initial recognition. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and a liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit. For example, this may arise when recognizing a lease liability and the corresponding right-of-use asset by applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The IASB also adds an illustrative example to IAS 12 that explains how the amendments apply.

The amendments apply to transactions occurring on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period, an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:

    - Right-of-use assets and lease liabilities
    - Decommissioning, restoration and similar liabilities and the related amounts recognized as part of the related asset cost.

- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as applicable) as of that date.

The Bank currently accounts for deferred income tax on leases on a net basis in the consolidated statement of financial position. Under the amendments, the Bank will be required to recognize a separate deferred income tax asset and liability account. As of June 30, 2023, the net deferred income tax asset generated from leases is B/.500,423 (2022: B/.428,597) and with the amendment a deferred income tax asset of B/.3,325,259 (2022: B/.3,896,205) and a liability of B/.3,825,682 (2022: B/.4,324,802) would be presented separately. There would be no impact on retained earnings or results. The amendments apply for annual periods beginning on or after January 1, 2023.

Except as mentioned above, Management does not expect the adoption of the aforementioned standards to have a material impact on the Bank's consolidated financial statements in future periods.

3. Basis of presentation

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 (IASB).

3.2 Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis, except for investments at fair value through profit or loss (FVTPL); investments at fair value through other comprehensive income (FVTOCI), assets or liabilities with fair value hedges and derivative instruments which are presented at fair value.

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

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

The consolidated financial statements have been prepared by Management assuming that the Bank will continue to operate as a going concern.

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 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 been eliminated in full on consolidation.

Changes in the Banks' ownership interests in existing subsidiaries

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

When the Bank loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the consideration received and the fair value of any retained interest and (ii) the previous carrying value of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (reclassified to profit or loss transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 – Financial Instruments, when applicable, the cost at the beginning of the transaction 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 and presentation currency

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 US dollar as legal tender.

3.5 Segment reporting

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

3.6 Financial assets

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

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

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

3.6.1 Classification

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

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

3.6.2 Evaluation of the business model

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

- The Bank's policies and objectives for the portfolio and the operation of these policies in practice. In particular, if the management strategy is focused on obtaining income from contractual interests, maintaining a particular interest rate profile, adapting the duration of the financial assets to the duration of the liabilities that finance those assets or making cash flows to through the sale of assets;
- How the portfolio performance is evaluated and informed to the Bank's Management;

- The risk that affects the performance of the business model and how these risks are managed;
- The frequency, volume and schedule of sales in previous years, the reason for such sales and their expectations about future sales activity. However, information on sales activity is not considered in isolation, but as part of a general assessment of how the Bank's stated objective for managing financial assets is achieved and how cash flows are realized.

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

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

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

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

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

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

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

3.6.4 Financial assets at fair value through other comprehensive income FVTOCI

These securities are made up of debt instruments not classified as securities at FVTPL or securities at amortized cost and are subject to the same approval criteria as the rest of the loan portfolio. These securities are accounted for at fair value if the following two conditions are met:

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

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

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

3.6.5 Financial assets at amortized cost

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

- The financial asset remains within the business model whose objective is to maintain the financial assets so as to obtain the contractual cash flows, and
- The contractual conditions of the financial asset give rise, on the specified dates, to cash flows that are only payments of the principal and interest on the amount of the outstanding principal.

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

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

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

3.6.7 Reclassification

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

On January 28, 2022, the Bank notified the Superintendency of Banks of Panama of its decision to reclassify the portfolio securities at fair value through other comprehensive income to the category of securities at amortized cost, as a result of a change in the Bank's business model. This decision was approved by the Board of Directors on December 15, 2021. The carrying value of the reclassification was effective January 31, 2022 in the amount of B/.208,434,664. The balance of the unrealized loss in other comprehensive income of the reclassified investments was B/.8,216,350.

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

3.6.8 *Asset write-off*

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

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive the cash flows of the asset and has either substantially transferred all the risks and benefits of the asset, or has transferred or substantially retained the risks and benefits of the asset, but control has been transferred of the asset.

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

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

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

3.6.9 Impairment of financial statements

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

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

Critical judgments are described in Note 5.

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

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

No impairment loss is recognized in equity investments.

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

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

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

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

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

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

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

3.6.9.1 Impaired financial assets

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

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

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

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

3.6.9.2 Definition of default

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

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

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

3.6.9.3 Significant increase in credit risk

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

- Assets with a default height of more than 30 days.
- Assets restructured by risks, where the client is experiencing financial difficulties, other than liquidity problems considered to be temporary, and until it is proven that his credit risk has improved.
- Customers with a significant increase in risk measured by the performance score for the consumer portfolio and the credit rating for the corporate portfolio, as detailed below, produced by:

    - A real or expected significant change in the borrower's operating results;
    - A significant expected or actual adverse change in the borrower's regulatory, economic or technological environment;
    - Significant changes in the value of the collateral guarantee that supports the obligation;
    - Significant changes, such as reductions in the financial support of a controlling entity or other subsidiary or a significant actual or expected change in the quality of the credit improvement, among other factors incorporated in the Bank's expected credit loss model.
    - Adverse changes existing or foreseen in the business, and financial or economic conditions;

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

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

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

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

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

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

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

3.6.9.4 Modified or renegotiated loans

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

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

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

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

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

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

- Continue with the current treatment for the existing loan that has been modified.
- Recognize a gain or loss on the modification by calculating the gross carrying value of the financial asset as the current value of the renegotiated or modified contractual cash flows, discounted at the original effective interest rate of the loan.

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

3.6.9.5 Write-offs

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

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

The provision for ECLs is presented in the consolidated statement of financial position as follows:

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

3.6.9.7 Loans at amortized cost

The Bank recognizes an allowance for expected credit losses for a loan that is measured at amortized cost on each reporting date for an amount equal to the credit losses for the entire expected life if the credit risk of that loan has increased significantly since its initial recognition. If on the reporting date, the credit risk of the loan has not increased significantly from initial recognition, the Bank measures the credit loss for that loan in an amount equal to 12 months expected credit losses.

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

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

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

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

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

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

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

- Individually assessed loans - Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case by case basis. This procedure applies to all loans that are individually significant. If it is determined that there is no objective evidence of impairment for an individual loan, this loan is included in a group of loans with similar characteristics and are collectively evaluated to determine whether impairment exists.

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

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

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

3.7 Financial liabilities and issued equity instruments

Client deposits

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

Classification as debt or equity

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

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

Equity instruments

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

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

Liabilities from financial guaranteed 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.

Obligations

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

Securities sold under repurchase agreements

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

The Bank evaluates the market value of securities sold and releases guarantees to 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 expense recognized on an accrual basis. For those whose market risks are hedged at fair value, the gain or loss attributable to the hedged risk will adjust the carrying amount of the hedged instrument and will be recognized in the consolidated statement of financial of profit or loss.

Derecognition of financial liabilities

Financial liabilities are derecognized when, and only when, the obligations are settled, cancelled or expired.

Dividends

Dividends on common shares are recognized in equity in the period in which they were approved by the Board of Directors.

3.8 Compensation of financial instruments

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

3.9 Interest income and expenses

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

3.10 Commission income

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

3.11 Securities purchased under resale agreements

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

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

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

3.12 Financial leases receivable

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

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

3.13 Operating leases

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

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

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

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

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

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

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

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

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

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

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

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

3.14 Property, plant, equipment and improvements

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

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

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

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

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

3.15 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

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 sale costs.

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

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

3.18 Impairment of non-financial assets other than goodwill

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

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

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

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

As of June 30, 2023, Management has not identified impairment loss of its non-financial assets.

3.19 Employee benefits

<u>*Labor benefits*</u>

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

Retirement plan

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

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

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

3.20 Share-based payments and restricted stock plan

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 subsidiary.

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).

The fair value of restricted shares granted annually to participants is recognized as an expense for the year by the Bank.

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 tax

The complementary tax corresponds to a portion of tax prepaid in advance on dividends 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 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.

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, which is when the hedging relationships meet all of the following hedging effectiveness requirements:

- There is an economic relationship between the hedging instrument and hedged item.
- The effect of the credit risk does not dominate the value of the changes resulting from the economic relationship; and
- The hedging ratio of the hedging relationship is the same as that resulting from the amount of the hedged item that the Bank actually hedges and the amount of the hedged instrument that the Bank actually uses to hedge that hedged item amount.

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.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the “other gains and losses” line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Banco expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Bank discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

The fair values of derivatives used for hedging purposes are described in Note 13.

3.25 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
- Operating 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 policies and procedures to mitigate credit risk summarized as follows:

Issuance of Credit Policies:

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

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

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

Establishment of Authorization Limits:

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

Exposure Limits:

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

Concentration Limits:

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

Counterparty Maximum Limits:

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

Review of Compliance Policies:

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

Review of guarantees:

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

Impairment and provisioning policies:

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

Credit quality analysis

4.2.1 Table of credit quality of financial assets and impairment allowance

	2023	2022
Bank deposits		
Grade 1	303,864,284	370,759,838
Loans		
Grade 1	5,331,231,491	5,412,874,750
Grade 2	459,358,530	389,509,269
Grade 3	119,505,701	68,488,578
Grade 4	112,739,798	85,672,677
Grade 5	281,428,774	264,430,887
Gross amount	6,304,264,294	6,220,976,161
Accrued interest receivable	154,312,211	158,404,104
Allowance for expected credit loss	(230,229,315)	(231,039,591)
Unearned discounted interest and commissions	(15,792,715)	(10,118,513)
Net carrying value	6,212,554,475	6,138,222,161
Off-balance sheet transactions		
Grade 1		
Letters of credit	176,006,674	117,640,132
Endorsements and guarantees	610,223,411	477,222,821
Promissory notes	200,699,607	248,342,285
Unused credit lines	557,564,622	464,998,977
	1,544,494,314	1,308,204,215
Securities purchased under resale agreements - at amortized cost		
Grade 1	3,547,807	285,200
Investment at fair value through other comprehensive income		
Grade 1	556,304,546	606,160,562
Investments at fair value through profit or loss		
Grade 1	68,596,435	41,454,514
Investments at amortized cost		
Grade 1	423,863,147	426,418,648

The aging of the loan portfolio delinquency is presented below:

	2023		
	Global Bank Corporation	Subsidiaries	Total
Current	5,941,989,103	60,704,438	6,002,693,541
31 to 90 days	88,776,840	-	88,776,840
More than 90 days (principal and interest)	155,001,959	-	155,001,959
More than 30 days past due (maturity principal)	57,791,954	-	57,791,954
Total	6,243,559,856	60,704,438	6,304,264,294

	2022		
	Global Bank Corporation	Subsidiaries	Total
Current	5,815,643,131	123,003,112	5,938,646,243
31 to 90 days	87,181,598	-	87,181,598
More than 90 days (principal and interest)	132,442,894	-	132,442,894
More than 30 days past due (maturity principal)	62,705,426	-	62,705,426
Total	6,097,973,049	123,003,112	6,220,976,161

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

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

4.2.2.1 Loan Portfolio

4.2.2.1.1 Credit quality analysis of loans by stage:

2023

	Stage 1	Stage 2	Stage 3	Total
Classification				
Grade 1	5,127,467,652	203,763,839	-	5,331,231,491
Grade 2	-	459,358,530	-	459,358,530
Grade 3	-	119,505,701	-	119,505,701
Grade 4	-	112,739,798	-	112,739,798
Grade 5	-	-	281,428,774	281,428,774
Gross amount	5,127,467,652	895,367,868	281,428,774	6,304,264,294
Interest receivable	83,113,353	51,238,800	19,960,058	154,312,211
Allowance for expected credit losses	(21,705,616)	(76,040,604)	(132,483,095)	(230,229,315)
Net carrying value	5,188,875,389	870,566,064	168,905,737	6,228,347,190

2022

	Stage 1	Stage 2	Stage 3	Total
Classification				
Grade 1	4,907,080,192	505,794,558	-	5,412,874,750
Grade 2	-	389,509,269	-	389,509,269
Grade 3	-	68,488,578	-	68,488,578
Grade 4	-	85,672,677	-	85,672,677
Grade 5	-	-	264,430,887	264,430,887
Gross amount	4,907,080,192	1,049,465,082	264,430,887	6,220,976,161
Interest receivable	80,257,278	66,741,950	11,404,876	158,404,104
Allowance for expected credit losses	(18,110,121)	(82,566,435)	(130,363,035)	(231,039,591)
Net carrying value	4,969,227,349	1,033,640,597	145,472,728	6,148,340,674

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

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

2023

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year	18,110,120	82,566,435	130,363,036	231,039,591
Transferred to Stage 1	37,898,589	(35,172,888)	(2,725,701)	-
Transferred to Stage 2	(6,198,209)	53,731,660	(47,533,451)	-
Transferred to Stage 3	(534,029)	(28,011,411)	28,545,440	-
Net effect of changes in the allowance for expected credit losses	(31,169,269)	11,868,713	78,563,670	59,263,114
Origination of new financial assets	9,061,450	-	-	9,061,450
Paid loans	(5,463,037)	(8,941,904)	(4,961,881)	(19,366,822)
Subtotal	3,595,495	(6,525,830)	51,888,077	48,957,742
Written-off loans	-	-	(53,524,753)	(53,524,753)
Recoveries	-	-	3,756,735	3,756,735
Balance at the end of the year	21,705,615	76,040,605	132,483,095	230,229,315

2022

	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year	23,852,733	83,414,021	101,318,828	208,585,582
Transferred to Stage 1	57,574,537	(55,228,037)	(2,346,500)	-
Transferred to Stage 2	(10,295,759)	88,918,025	(78,622,266)	-
Transferred to Stage 3	(8,082,697)	(44,380,985)	52,463,682	-
Net effect of changes in the allowance for expected credit losses	(49,688,830)	17,297,962	107,829,648	75,438,780
Origination of new financial assets	8,760,346	-	-	8,760,346
Paid loans	(4,010,210)	(7,454,551)	(13,701,886)	(25,166,647)
Subtotal	(5,742,613)	(847,586)	65,622,678	59,032,479
Written-off loans	-	-	(39,552,767)	(39,552,767)
Recoveries	-	-	2,974,297	2,974,297
Balance at the end of the year	18,110,120	82,566,435	130,363,036	231,039,591

Incorporation of information with a prospective vision

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

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

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

Scenario	2023 GDP Growth	2023 Sensitivity on the reserve selected	2022 GDP Growth	2022 Sensitivity on the reserve selected
Optimistic	6.00%	(773,610)	8.00%	(886,698)
Base	5.00%	404,937	5.00%	314,120
Pessimist	4.00%	1,154,377	2.00%	1,923,101

The relationships predicted between key indicators and default rates and loss rates have been developed based on the historical data analysis over the past 10 years.

The effects known to Management and which can be reasonably estimated have been recognized in the June 30, 2023 y 2022 consolidated financial statements. The principal assumptions described above may change as economic and market conditions change. (See Note 35).

4.2.2.2 Investment portfolio

The following breakdown analyzes the Bank's investment portfolio that is exposed to credit risk and its corresponding evaluation based on the degree of international rating:

2023	**With investment rating**	**Standard monitoring**	**Without international rating**	**Total**
Investments at fair value through other comprehensive income	138,060,233	133,433,104	284,811,209	556,304,546
Investments at fair value through profit or loss	22,335,722	-	46,260,713	68,596,435
Investments at amortized cost	365,154,207	38,892,179	19,816,761	423,863,147
Securities purchased under resale agreements	-	-	3,547,807	3,547,807
Total	525,550,162	172,325,283	354,436,490	1,052,311,935

2022	**With investment rating**	**Standard monitoring**	**Without international rating**	**Total**
Investments at fair value through other comprehensive income	130,903,719	161,305,670	313,951,173	606,160,562
Investments at fair value through profit or loss	7,078,019	-	34,376,495	41,454,514
Investments at amortized cost	367,068,058	39,533,829	19,816,761	426,418,648
Securities purchased under resale agreements	-	-	285,200	285,200
Total	505,049,796	200,839,499	368,429,629	1,074,318,924

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

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

The following is the analysis of investments by stage:

2023

	Stage 1	Stage 2	Stage 3	Total
Investments at fair value through other comprehensive income	479,801,681	76,502,865	-	556,304,546
Investments at amortized cost	404,046,386	19,816,761	-	423,863,147
	883,848,067	96,319,626	-	980,167,693

2022

	Stage 1	Stage 2	Stage 3	Total
Investments at fair value through other comprehensive income	551,391,946	54,768,616	-	606,160,562
Investments at amortized cost	406,601,887	19,816,761	-	426,418,648
	957,993,833	74,585,377	-	1,032,579,210

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

2023

Investments at fair value through other comprehensive income	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of the year	2,207,796	1,517,264	-	3,725,060
Transfer from 12 months to total life without credit impairment	(22,342)	22,342	-	-
Net effect of changes in the allowance for expected credit losses	745,307	(137,131)	-	608,176
New instruments acquired	172,126	-	-	172,126
Investments cancelled	(439,379)	-	-	(439,379)
Balance at end of the year	2,663,508	1,402,475	-	4,065,983

2022

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of the year	2,226,968	-	-	2,226,968
Transfer from 12 months to total life with no credit impairment	(225,098)	225,098	-	-
Transfer from 12 months to total life with credit impairment	(2,044)	-	2,044	-
Net effect of changes in allowance for expected credit losses	419,554	1,292,166	111,085	1,822,805
New instruments acquired	462,908	-	-	462,908
Investments cancelled	(674,492)	-	-	(674,492)
Investments written-off	-	-	(113,129)	(113,129)
Balance at end of the year	2,207,796	1,517,264	-	3,725,060

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

2023

Investments at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of the year	147,498	1,543,806	-	1,691,304
Net effect of changes in the allowance for expected credit losses	140,244	(9,432)	-	130,812
New instruments acquired	2,303	-	-	2,303
Balance at end of the year	290,045	1,534,374	-	1,824,419

2022

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	405,466	-	-	405,466
Transfer from 12 months to total life with no credit impairment	(281,943)	281,943	-	-
Net effect of changes in allowance for expected credit losses	19,694	1,261,863	-	1,281,557
New instruments acquired	4,281	-	-	4,281
Balance at end of the year	147,498	1,543,806	-	1,691,304

4.2.2.3 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		
2023	**Personal**	**Credit cards**	**Vehicles**	**Mortgages**	**Commercial**	**Overdraft**	**Total loans**
Loan balances	838,501,674	127,844,205	227,071,591	1,950,815,573	3,035,941,980	124,089,271	6,304,264,294
Guarantees	360,139,287	3,787,386	307,947,708	2,706,410,013	5,358,377,749	215,742,466	8,952,404,609
% of exposure subject to guarantee requirements	27%	1%	97%	99%	74%	70%	75%

	Consumer				Corporate		
2022	**Personal**	**Credit cards**	**Vehicles**	**Mortgages**	**Commercial**	**Overdraft**	**Total loans**
Loan balances	790,744,216	130,689,684	242,534,952	1,864,102,498	3,015,155,699	177,749,112	6,220,976,161
Guarantees	356,136,088	3,334,480	328,791,181	2,586,275,613	5,374,826,530	229,590,768	8,878,954,660
% of exposure subject to guarantee requirements	27%	1%	97%	99%	76%	68%	76%

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.

	2023	**2022**
Residential mortgage loans:		
Less than 50%	141,990,600	127,383,736
51% - 70%	399,029,670	381,965,997
71% - 90%	950,916,051	950,591,800
Over 90%	458,879,252	404,160,965
Total	1,950,815,573	1,864,102,498

Time deposits placed in banks

As of June 30, 2023, the Bank held time deposits in Banks for B/.136,670,398 (2022: B/.170,735,582). Time deposits in banks are kept in domestic and foreign financial institutions. These institutions have domestic and/or international ratings, mostly with an international investment grade of at least BBB- by Fitch Ratings or Standard and Poor's, or Baa3 by Moody's.

4.2.2.4 Concentration of credit risk

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

	2023		
	Bank deposits	**Loans**	**Investments**
Concentration by sector:			
Corporate	-	3,019,412,494	-
Consumer	-	3,156,181,590	-
Government	57,001,442	-	465,035,394
Other sectors	246,862,842	128,670,210	583,728,734
	303,864,284	6,304,264,294	1,048,764,128
Geographic concentration:			
Panama	125,287,233	5,933,420,769	498,555,042
Latin America and the Caribbean	10,062,341	269,325,918	234,464,720
Europe, Asia and Oceania	48,297,034	101,517,607	15,564,596
United States of America	120,217,676	-	300,179,770
	303,864,284	6,304,264,294	1,048,764,128

	2022		
	Bank deposits	**Loans**	**Investments**
Concentration by sector:			
Corporate	-	3,023,795,428	-
Consumer	-	3,041,969,959	-
Government	96,636,132	-	426,389,383
Other sectors	274,123,706	155,210,774	647,644,341
	370,759,838	6,220,976,161	1,074,033,724
Geographic concentration:			
Panama	135,053,634	5,892,257,762	526,854,065
Latin America and the Caribbean	10,070,485	284,196,595	280,410,768
Europe, Asia and Oceania	52,671,522	44,521,804	14,003,444
United States of America	172,964,197	-	252,765,447
	370,759,838	6,220,976,161	1,074,033,724

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

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

4.3 Liquidity or financing risk

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, 2023 was 36.34% (2022: 40.60%).

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

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

	2023	**2022**
At end of the year	**36.34%**	**40.60%**
Average for the year	37.94%	43.02%
Maximum for the year	41.68%	48.37%
Minimum for the year	35.51%	37.87%

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

2023	Carrying value	Undiscounted cash flows	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits	5,288,496,242	5,512,107,429	3,793,315,214	1,218,212,122	497,503,874	3,076,219
Securities sold under repurchase agreements	70,009,751	72,419,208	72,419,208	-	-	-
Obligations with financial institutions	1,582,877,582	1,727,060,636	1,092,270,161	401,763,904	180,095,938	52,930,633
Corporate bonds	388,450,729	497,879,016	54,164,040	37,590,104	37,641,668	368,483,204
Perpetual bonds	177,965,873	230,337,782	11,996,256	47,824,828	104,214,610	66,302,088
Lease liabilities	15,302,729	19,870,202	2,748,768	4,506,488	3,569,489	9,045,457
	7,523,102,906	8,059,674,273	5,026,913,647	1,709,897,446	823,025,579	499,837,601

2022	Carrying value	Undiscounted cash flows	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits	5,243,073,019	5,430,424,310	3,773,855,129	1,203,576,219	451,356,101	1,636,861
Securities sold under repurchase agreements	93,665,393	95,197,835	95,197,835	-	-	-
Obligations with financial institutions	1,488,606,294	1,605,060,684	653,755,778	581,474,195	229,955,408	139,875,303
Marketable securities	16,595,000	16,721,924	16,721,924	-	-	-
Corporate bonds	439,235,300	579,140,092	47,120,163	75,632,849	40,371,364	416,015,716
Perpetual bonds	177,495,857	241,359,308	11,929,599	23,859,197	130,851,953	74,718,559
Lease liabilities	17,277,420	33,698,737	2,673,700	9,176,207	10,693,995	11,154,835
	7,475,948,283	8,001,602,890	4,601,254,128	1,893,718,667	863,228,821	643,401,274

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

4.4 Market risk

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.

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

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

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

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

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

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

2023	Up to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Without interest rate	Total
Financial assets:						
Cash and deposits	129,708,433	4,281,551	2,680,414	-	218,006,292	354,676,690
Securities purchased under resale agreements - at amortized cost	-	3,547,807	-	-	-	3,547,807
Investments at fair value through other comprehensive income	109,741,578	33,490,300	226,874,771	158,144,566	28,053,331	556,304,546
Investments at fair value through profit or loss	-	1,664,339	-	28,419,496	38,512,600	68,596,435
Investments at amortized cost	-	10,360,164	121,697,907	291,805,076	-	423,863,147
Loans	4,636,541,655	15,065,412	152,874,050	1,499,783,177	-	6,304,264,294
Total financial assets	4,875,991,666	68,409,573	504,127,142	1,978,152,315	284,572,223	7,711,252,919
Financial liabilities:						
Deposits received	2,420,289,810	815,987,412	1,564,328,733	7,715,049	480,175,238	5,288,496,242
Securities sold under repurchase agreements	38,068,393	31,941,358	-	-	-	70,009,751
Obligations with financial institutions	1,266,256,219	123,247,560	69,278,762	124,095,041	-	1,582,877,582
Corporate bonds	34,976,155	-	-	353,474,574	-	388,450,729
Perpetual bonds	-	-	-	177,965,873	-	177,965,873
Total financial liabilities	3,759,590,577	971,176,330	1,633,607,495	663,250,537	480,175,238	7,507,800,177
Commitments and contingencies	-	-	-	-	1,544,494,314	1,544,494,314
Total interest rate sensitivity	1,116,401,089	(902,766,757)	(1,129,480,353)	1,314,901,778	(195,603,015)	203,452,742

2022	Up to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Without interest rate	Total
Financial assets:						
Cash and deposits	168,305,167	-	2,430,415	-	251,248,411	421,983,993
Securities purchased under resale agreements - at amortized cost	-	285,200	-	-	-	285,200
Investments at fair value through other comprehensive income	156,456,940	26,816,040	194,585,999	201,422,667	26,878,916	606,160,562
Investments at fair value through profit or loss	-	-	-	28,422,444	13,032,070	41,454,514
Investments at amortized cost	-	-	98,370,617	328,048,031	-	426,418,648
Loans	4,662,160,019	15,727,520	139,516,464	1,403,572,158	-	6,220,976,161
Total financial assets	4,986,922,126	42,828,760	434,903,495	1,961,465,300	291,159,397	7,717,279,078
Financial liabilities:						
Deposits received	2,353,749,321	811,769,865	1,530,229,281	15,799,592	531,524,960	5,243,073,019
Securities sold under repurchase agreements	61,705,325	31,960,068	-	-	-	93,665,393
Obligations with financial institutions	1,207,329,239	6,771,903	146,066,183	128,438,969	-	1,488,606,294
Marketable securities	13,575,000	3,020,000	-	-	-	16,595,000
Corporate bonds	24,799,551	-	34,837,907	379,597,842	-	439,235,300
Perpetual bonds	-	-	-	177,495,857	-	177,495,857
Total financial liabilities	3,661,158,436	853,521,836	1,711,133,371	701,332,260	531,524,960	7,458,670,863
Commitments and contingencies	-	-	-	-	1,308,204,215	1,308,204,215
Total interest rate sensitivity	1,325,763,690	(810,693,076)	(1,276,229,876)	1,260,133,040	(240,365,563)	258,608,215

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

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

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

2023	**Increase of 100bps**	**Decrease of 100bps**
Investments in securities	(50,288,120)	58,062,528
Loans	(21,465,781)	22,936,719
Time deposits	43,394,685	(44,796,774)
Obligations with financial institutions	15,412,112	(15,973,927)
Corporate bonds	17,299,532	(18,291,927)
Perpetual bonds	2,326,541	(2,369,653)
Net impact	6,678,969	(433,034)

2022	**Increase of 100bps**	**Decrease of 100bps**
Investments in securities	(57,684,546)	67,154,777
Loans	(20,279,308)	21,703,116
Time deposits	42,556,001	(43,624,115)
Obligations with financial institutions	22,512,456	(23,525,223)
Marketable securities	72,166	(72,609)
Corporate bonds	22,439,592	(23,962,459)
Perpetual bonds	2,892,087	(2,968,070)
Net impact	12,508,448	(5,294,583)

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

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

4.6 Insurance risk

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 Bank 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 Bank'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 Bank adopts reasonable estimation policies and through evaluations assisted by statistical techniques and actuarial calculations.

4.7 Capital management

As of June 30, 2023, the Bank analyzes its regulatory capital applying the standards of the Superintendency of Banks of Panama based on the new agreements, Agreement 1-2015 of February 3, 2015 and Agreement 3-2016 of March 22, 2016, which modified Agreement 5-2008 of October 1, 2008, by means of which rules are established to determine assets weighted by credit risk and counterparty risk and the new agreements, Agreements 11-2018 of September 11, 2018, amended by Agreement 3-2019 of April 30, 2019, by means of which new provisions are established on Operational Risk and Agreement 2-2018 of January 23, 2018, by means of which, the Superintendency of Banks of Panama has determined to take into consideration other risks to determine the capital adequacy index, among which are the market risk, the operational risk and the country risk, in order to value the requirement of capital funds.

By means of General Board Resolution SBP-GJD-R-2023-01034 dated April 11, 2023, General Board Resolution SBP-GJD-0005-2020 is repealed, where, as a consequence of the effects of the global health pandemic COVID-19 decreed by the World Health Organization (WHO), the need and convenience of establishing temporary special measures as the effects of Article No.2 of Agreement No.3-2016, all risk assets classified in categories 7 and 8, whose weighting is 125% and 150% respectively, weighted as part of category 6, whose weighting is 100%.

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

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

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

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

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

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

To calculate the amount of the capital funds of a general licensed 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 will include recorded assets at higher-paid value, with respect of the carrying value, of permanent investments in local or foreign entities.
- Asset items related to expenses or other items that under generally accepted accounting principles and International Accounting Standards correspond to overvaluations or unrecognized losses; and also losses incurred anytime during the fiscal period.

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

	2023	2022
Primary capital (Tier 1)		
Paid-in share capital	270,202,657	270,202,657
Excess paid-in share capital	2,252,695	1,974,519
Declared reserves	44,175,479	43,269,167
Retained earnings	328,345,832	380,419,123
Other items of comprehensive income	(37,365,976)	(37,694,923)
Dynamic reserve	87,863,198	87,863,198
Sub total	695,473,885	746,033,741
Less: Regulatory adjustments to the calculation of ordinary primary capital		
Trading funds	(92,014,817)	(92,014,817)
Other intangible assets	(17,831,449)	(19,374,790)
Deferred tax assets	(2,475,602)	-
Total primary capital funds	583,152,017	634,644,134
Perpetual bonds	177,965,873	177,495,857
Total additional primary capital funds	177,965,873	177,495,857
Total capital funds	761,117,890	812,139,991
Assets weighted by credit risk	5,529,013,583	5,133,890,220
Assets weighted by market risk	56,414,370	52,269,781
Operational risk-weighted assets	214,916,253	189,190,408
Total risk-weighted assets	5,800,344,206	5,375,350,409
Capital ratios		
Total regulatory capital expressed as a percentage of risk-weighted assets	13.12%	15.11%
Pillar 1 total expressed as a percentage of risk-weighted assets	13.12%	15.11%

The following is the composition of the calculation of market risk weighted assets based on asset type:

	Assets weighted by market risk	
	2023	**2022**
Category		
Fixed income	3,474,833	317,806
Variable income	52,939,537	51,951,975
Assets weighted by market risk	56,414,370	52,269,781

5. Accounting estimates, critical judgments and contingencies

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

Judgments

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

(a) Significant increase in credit risk: For Stage 1 assets, expected losses are measured as a provision equal to the expected credit losses for 12 months, or the expected losses during the term for Stage 2 assets or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has increased significantly, the Bank takes into account reasonable and supported forward-looking qualitative and quantitative information.

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

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

(d) Allowance for expected credit losses – When determining the reserve for expected credit, Management's judgment is required to evaluate the amount and timing of future cash flows in order to determine whether the credit risk has increased significantly from initial recognition, taking into account loan characteristics and default patterns in the past for similar financial instruments.

The changes in the risk of default that occur in the next 12 months may be a reasonable approximation of the changes in the risk measured according to the life of the instrument. The Bank uses the changes in the risk of default that occur in the next 12 months to determine if the credit risk has increased significantly since initial recognition, unless the circumstances indicate that an assessment of the life of the instrument is necessary.

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

(f) In measuring goodwill impairment, the Bank uses the value in use, whose main inputs are the Bank's financial projections. The budgets include income forecasts, interest costs, provisions and general expenses based on current and anticipated market conditions that have been considered and approved by the Board of Directors. While the Bank has made the projections with the best evidence at the balance sheet date and applying its judgment to future forecasts, the projections are inherently uncertain due to the uncertainty in the economy. The key assumptions to determine recoverable value are disclosed in Note 13.

(g) 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;
- Obtaining an understanding of how the fair value was determined and if it reflects current market transactions.

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

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

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

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

Fair value of financial assets and financial liabilities measured at fair value on a recurring basis at the end of the year as of June 30, 2023 and 2022.

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				Fair value hierarchy	Valuation technique(s) and key data inputs	Significant unobservable input data	Relationship between unobservable input data and fair value
	FVTOCI		FVTPL					
	2023	2022	2023	2022				
Investments at fair value:								
Shares issued by companies -domestic	8,180,327	7,065,742	4,926,749	5,145,636	Level 2	Observable market prices in non-active markets.	N/A	N/A
Shares issued by companies -domestic	490,850	490,850	-	-	Level 3	Share prices in non-liquid markets.	Calibration prices and calibration dates.	If unobservable data increases, the fair value of the instruments will decrease.
Shares issued by companies - foreign	448,732	433,107	2,941,441	2,695,575	Level 1	Observable market prices in active markets.	N/A	N/A
Shares issued by foreign companies, not listed in stock exchange	83,434	-	15,014,785	-	Level 2	Value of net assets	N/A	N/A
Shares issued by foreign companies, not listed in stock exchange	37,619	31,340	-	-	Level 3	Share prices in non-liquid markets.	Calibration prices and calibration dates.	If unobservable data increases, the fair value of the instruments will decrease.
Private debt securities - domestic	12,023,482	23,705,170	-	-	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - domestic	12,495,971	65,092,216	1,664,339	-	Level 3	Observable market prices in non-active markets.	N/A	N/A
Private debt securities - domestic	207,910,260	186,273,413	-	-	Level 3	Bond price in the non-liquid market.	Calibration prices and calibration dates.	If unobservable data increases, the fair value of the instruments will decrease.
Private debt securities - foreign	196,259,326	244,144,734	4,379,496	4,382,444	Level 1	Observable market prices in active markets.	N/A	N/A
Government debt securities - domestic	19,048,642	21,387,601	-	-	Level 1	Observable market prices in active markets.	N/A	N/A
Government debt securities - domestic not listed in stock exchange	348,722	536,819	-	-	Level 3	Value of the instrument's quota.	N/A	N/A
Government debt securities - foreign	43,362,638	-	-	-	Level 1	Observable market prices in active markets.	N/A	N/A
Shares issued by domestic companies, not listed in stock exchange	18,812,370	18,812,370	15,629,625	5,190,859	Level 3	Price per share, adjusted for the fair value of the issuer's properties.	Growth in issuer's assets, liabilities, equity and profits.	If growth increases, the price increases and viceversa.
Private debt securities - domestic not listed in the stock exchange	-	-	24,040,000	24,040,000	Level 3	Present net value	CMS data. Cash flows	If the unobservable data deteriorates, the fair value of the instrument will be lower.
Private debt securities - domestic not listed in the stock exchange	36,802,173	38,187,200	-	-	Level 3	Discounted cash flows	Discount rate	If the discount rate is higher than the flows, the fair value of the instrument will be lower.
Total investments at fair value	556,304,546	606,160,562	68,596,435	41,454,514				
Interest rate swaps – fair value	7,290,393	9,491,336	-	-	Level 2	Present value. The valuation of an interest rate swap is achieved by adding the present value of all expected swap flows, and then applying a credit adjustment.	N/A	N/A
Total derivative financial instruments	7,290,393	9,491,336	-	-				

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.

	2023 Investments at fair value through other comprehensive income	
	Effect on equity	
	Favorable	(Unfavorable)
Fixed income instruments	9,716,574	(9,186,004)

	2022 Investments at fair value through other comprehensive income	
	Effect on equity	
	Favorable	(Unfavorable)
Fixed income instruments	10,767,504	(10,126,075)

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

The carrying value of main assets and liabilities not measured at fair value in the Bank's consolidated statement of financial position summarized below:

	2023		2022	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and deposits in banks	218,006,292	218,006,292	251,248,411	251,248,411
Time deposits	136,670,398	136,670,398	170,735,582	170,735,582
Securities purchased under resale agreements - at amortized cost	3,547,807	3,547,807	285,200	285,200
Investments at amortized cost	423,863,147	364,195,119	426,418,648	376,663,165
Loans	6,058,242,264	6,126,313,419	5,979,818,057	6,073,533,508
Total financial assets	6,840,329,908	6,848,733,035	6,828,505,898	6,872,465,866
Liabilities				
Demand deposits	480,175,238	480,175,238	531,524,960	531,524,960
Savings deposits	1,138,528,545	1,138,528,545	1,277,234,887	1,277,234,887
Time deposits	3,669,792,459	3,699,532,731	3,434,313,172	3,492,814,634
Securities sold under repurchase agreements	70,009,751	70,009,751	93,665,393	93,665,393
Obligations with financial institutions	1,582,877,582	1,601,210,196	1,488,606,294	1,526,983,616
Marketable securities	-	-	16,595,000	16,566,596
Corporate bonds	388,450,729	357,916,085	439,235,300	418,762,746
Perpetual bonds	177,965,873	177,128,238	177,495,857	177,255,310
Total financial liabilities	7,507,800,177	7,524,500,784	7,458,670,863	7,534,808,142

	Fair value hierarchy 2023			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and deposits in banks	218,006,292	-	218,006,292	-
Time deposits	136,670,398	-	136,670,398	-
Securities purchased under resale agreements - at amortized cost	3,547,807	-	3,547,807	-
Investments at amortized cost	364,195,119	345,499,194	-	18,695,925
Loans	6,126,313,419	-	-	6,126,313,419
Total financial assets	6,848,733,035	345,499,194	358,224,497	6,145,009,344
Liabilities				
Demand deposits	480,175,238	-	480,175,238	-
Savings deposits	1,138,528,545	-	1,138,528,545	-
Time deposits	3,699,532,731	-	3,699,532,731	-
Securities sold under repurchase agreements	70,009,751	-	70,009,751	-
Obligations with financial institutions	1,601,210,196	-	1,601,210,196	-
Corporate bonds	357,916,085	322,916,085	-	35,000,000
Perpetual bonds	177,128,238	-	133,073,118	44,055,120
Total financial liabilities	7,524,500,784	322,916,085	7,122,529,579	79,055,120

	Fair value hierarchy 2022			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and deposits in banks	251,248,411	-	251,248,411	-
Time deposits	170,735,582	-	170,735,582	-
Securities purchased under resale agreements - at amortized cost	285,200	-	285,200	-
Investments at amortized cost	376,663,165	358,600,187	-	18,062,978
Loans	6,073,533,508	-	-	6,073,533,508
Total financial assets	6,872,465,866	358,600,187	422,269,193	6,091,596,486
Liabilities				
Demand deposits	531,524,960	-	531,524,960	-
Savings deposits	1,277,234,887	-	1,277,234,887	-
Time deposits	3,492,814,634	-	3,492,814,634	-
Securities sold under repurchase agreements	93,665,393	-	93,665,393	-
Obligations with financial institutions	1,526,983,616	-	1,526,983,616	-
Marketable securities	16,566,596	-	16,566,596	-
Corporate bonds	418,762,746	358,941,746	24,821,000	35,000,000
Perpetual bonds	177,255,310	-	113,575,360	63,679,950
Total financial liabilities	7,534,808,142	358,941,746	7,077,186,446	98,679,950

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

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

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

	Investments at fair value through other comprehensive income		Investments at fair value through profit or loss	
	2023	**2022**	**2023**	**2022**
Balance at beginning of the year	244,331,992	254,349,646	29,230,859	28,904,577
Additions	-	29,624,774	12,110,767	-
Reclassifications from Level 2 to Level 3	48,481,332	21,794,884	-	-
Reclassifications from Level 3 to Level 2	-	(26,914,747)	-	-
Net changes in securities	(2,315,207)	(13,489,764)	(7,662)	326,282
Redemptions, amortizations and write-offs	(26,096,123)	(21,032,801)	-	-
Balance at end of the year	264,401,994	244,331,992	41,333,964	29,230,859

As of June 30, 2023, investments at fair value through other comprehensive income in Level 3, did not affect the Bank's results.

The total unrealized loss for fair value investments through changes in other comprehensive income classified as Level 3 as of June 30, 2023 is B/.16,465,705 (2022: B/.14,150,498).

As of June 30, 2023, 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 presented below:

	2023	2022
Transactions with related companies		
Consolidated statement of financial position		
Assets		
Investments at fair value through other comprehensive income	17,317,747	22,500,372
Investments at fair value through profit or loss	9,440,792	9,672,459
Loans	31,638,133	68,415,730
Accrued interest receivable	1,903,425	2,301,590
Other assets	104,162,869	83,899,254
Liabilities		
Client deposits:		
Demand	24,388,982	33,217,837
Savings	3,069,104	4,400,337
Time	46,831,438	57,479,258
Accrued interest payable	1,158,274	167,249
Commitments and contingencies	7,014,723	39,134,056

Consolidated statement of profit or loss

	2023	2022
Income and expenses		
Interest and dividend income	2,210,485	3,089,227
Interest expenses	1,119,699	2,518,224

	2023	2022
Transactions with directors and key management personnel		
Consolidated statement of financial position		
Assets		
Loans	15,210,623	13,945,053
Accrued interest receivable	55,528	69,775
Liabilities		
Client deposits:		
Demand	539,213	1,404,401
Savings	3,210,703	12,793,758
Time	22,866,776	47,321,530
Accrued interest payable	330,089	122,508
Commitments and contingencies	454,609	637,763

Consolidated statement of profit and loss	2023	2022
Income and expenses		
Interest income	647,342	606,808
Interest expenses	722,415	1,701,662

Benefits of key Management personnel		
Salaries	5,953,032	5,804,311
Profit sharing	1,407,667	1,229,043
Share option plan for employees	470,796	218,945
Allowances for Directors	986,860	877,500
	8,818,355	8,129,799

As of June 30, 2023, collaterals guaranteeing loans to related parties amounted to B/.80,213,343 (2022: B/.127,071,808), which correspond to property, furniture and securities.

As of June 30, 2023, no loans with related parties show evidence of impairment. As of June 30, 2023, loans with related parties have maturities between July 2023 and June 2052 and annual interest rates ranging between 2.75% and 8% (2022: maturities between July 2022 and April 2052 and annual interest rates ranging between 2.75% and 7.25%).

7. Cash and cash equivalents

	2023	2022
Cash and cash equivalents	50,812,406	51,224,155
Demand deposits	167,193,886	200,024,256
Time deposits	136,670,398	170,735,582
	354,676,690	421,983,993
Interest receivable	289,166	179,238
Cash and bank deposits	354,965,856	422,163,231
Less:		
Interest receivable	(289,166)	(179,238)
Restricted time deposits	(3,025,795)	(4,227,529)
Time deposits with original maturities greater than 90 days	(4,680,414)	(2,430,414)
Cash and cash equivalents for purposes of the consolidated statement of cash flows	346,970,481	415,326,050

As of June 30, 2023, there are time deposits with original maturities greater than 90 days for B/.4,680,414 (2022: B/.2,430,414). In addition, there are restricted time deposits for B/.3,025,795 (2022: B/.4,227,529) that guarantee financial obligations.

8. Securities purchased under resale agreements

As of June 30, 2023, securities purchased under resale agreements for B/.3,547,807 (2022: B/.285,200) with maturities in March 2024, May 2024 and June 2024 (2022: with maturity on May and June 2023), are guaranteed by corporate bonds of companies listed in the Panama Stock Exchange.

9. Investments in securities, net

The breakdown of investments in securities is as follows:

	2023	2022
Investments at fair value through other comprehensive income	556,304,546	606,160,562
Investments at fair value through profit or loss	68,596,435	41,454,514
Investments at amortized cost	423,863,147	426,418,648
Interest receivable	6,470,360	6,862,521
Provision for impairment of investments at amortized cost	(1,824,419)	(1,691,304)
Investments in securities, net	1,053,410,069	1,079,204,941

9.1 Securities at fair value through other comprehensive income

	2023	2022
Securities listed in the stock exchange:		
Shares issued by companies - domestic	8,671,177	7,556,592
Shares issued by companies - foreign	448,732	433,107
Private debt securities - domestic	232,429,713	275,070,799
Private debt securities - foreign	196,259,326	244,144,734
Government debt securities - domestic	19,048,642	21,387,601
Government debt securities - foreign	43,362,638	-
	500,220,228	548,592,833
Securities not listed in stock exchange:		
Shares issued by companies - domestic	18,812,370	18,812,370
Shares issued by companies - foreign	121,053	31,340
Private debt securities - domestic	36,802,173	38,187,200
Government debt securities - domestic	348,722	536,819
	56,084,318	57,567,729
	556,304,546	606,160,562

The annual interest rates accruing on investments at fair value through other comprehensive income ranged from 2.50% and 9.375% (2022: 1.00% and 9.375%).

As of June 30, 2023, there are investments at fair value through other comprehensive income for B/.153,404,683 (2022: B/.109,470,267), which guarantee obligations with financial institutions. (See Note 16). In addition, as of June 30, 2023, there are investments at fair value through other comprehensive income for B/.63,689,175 (2022: B/.56,280,642), which guarantee repurchase agreements. (See Note 15).

As of June 30, 2023, the Bank sold and redeemed investments for B/.301,697,831 (2022: B/.438,213,712) and, as a result, recorded a profit of B/.388,602 (2022: B/.1,154,420), which is included in the consolidated statement of profit or loss.

9.2 Securities at fair value through profit or loss

Securities at fair value through profit or loss are presented below:

	2023	2022
Securities listed in the stock exchange:		
Shares issued by companies - domestic	4,926,749	5,145,636
Shares issued by companies - foreign	2,941,441	2,695,575
Private debt securities - domestic	1,664,339	-
Private debt securities - foreign	4,379,496	4,382,444
	13,912,025	12,223,655
Securities not listed in the stock exchange:		
Shares issued by companies - domestic	15,629,625	5,190,859
Shares issued by companies - foreign	15,014,785	-
Private debt securities - domestic	24,040,000	24,040,000
	54,684,410	29,230,859
	68,596,435	41,454,514

As of June 30, 2023, sales of investments at fair value through profit or loss were made with a loss of B/.6,260.

9.3 Securities at amortized cost

	2023		2022	
	Carrying value	Fair value	Carrying value	Fair value
Securities listed in the stock excahange:				
Private debt securities - foreign	5,715,344	4,395,807	6,102,723	5,009,900
Government debt securities - domestic	116,364,772	108,086,937	111,109,428	104,098,185
Government debt securities - foreign	281,966,270	233,016,450	289,389,736	249,492,102
	404,046,386	345,499,194	406,601,887	358,600,187
Securities not listed in the stock excahange:				
Private debt securities - domestic	19,816,761	18,695,925	19,816,761	18,062,978
	19,816,761	18,695,925	19,816,761	18,062,978
	423,863,147	364,195,119	426,418,648	376,663,165

As of June 30, 2023, the annual interest rate accrued by securities at amortized cost, ranges between 1.00% and 9.375% (2022: 1.00% and 8.875%).

As of June 30, 2023, there are securities at amortized cost for B/.29,208,650 (2022: B/.19,793,200), which guarantee obligations with financial institutions (See Note 16). In addition, as of June 30, 2023, there are investments at amortized cost for B/.21,183,781 (2022: B/.47,176,727) that guarantee repurchase agreements. (See Note 15).

10. Loans, net

	2023			2022		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Domestic sector:						
Consumer	1,150,979,532	(56,908,586)	1,094,070,946	1,123,293,243	(63,253,413)	1,060,039,830
Commercial	1,275,097,314	(87,703,025)	1,187,394,289	1,363,212,307	(66,926,988)	1,296,285,319
Agricultural	356,141,355	(17,509,248)	338,632,107	351,830,019	(12,341,438)	339,488,581
Pledges	131,488,253	(4,857)	131,483,396	106,519,182	(1,348)	106,517,834
Overdrafts	105,313,456	(4,446,340)	100,867,116	126,833,042	(7,274,871)	119,558,171
Mortgages	1,950,815,572	(19,614,038)	1,931,201,534	1,864,102,498	(38,629,365)	1,825,473,133
Industrial	270,582,965	(2,081,509)	268,501,456	271,084,022	(2,569,663)	268,514,359
Construction	405,354,778	(26,938,245)	378,416,533	418,091,228	(20,991,923)	397,099,305
Financial leasings	45,587,281	(1,758,123)	43,829,158	35,758,629	(1,446,753)	34,311,876
Factoring	242,060,263	(4,841,423)	237,218,840	231,533,592	(9,807,995)	221,725,597
Total domestic sector	5,933,420,769	(221,805,394)	5,711,615,375	5,892,257,762	(223,243,757)	5,669,014,005
Foreign sector:						
Commercial	251,410,815	(1,971,725)	249,439,090	223,156,994	(1,669,237)	221,487,757
Industrial	89,004,576	(5,973,649)	83,030,927	42,410,045	(5,968,058)	36,441,987
Construction	2,182,297	(431,537)	1,750,760	1,265,268	(691)	1,264,577
Pledges	9,470,022	-	9,470,022	10,970,022	-	10,970,022
Overdrafts	18,775,815	(47,010)	18,728,805	50,916,070	(157,848)	50,758,222
Total foreign sector	370,843,525	(8,423,921)	362,419,604	328,718,399	(7,795,834)	320,922,565
	6,304,264,294	(230,229,315)	6,074,034,979	6,220,976,161	(231,039,591)	5,989,936,570
Plus - Interest receivable			154,312,211			158,404,104
Less - Discounted unearned interest and commissions			(15,792,715)			(10,118,513)
Total			6,212,554,475			6,138,222,161

As of June 30, 2023, the loan portfolio accrues interest at a rate range of 0.25% to 25.99% (2022: 0.75% to 25.99%).

As of June 30, 2023, there are loans that guarantee corporate bonds for a total of B/.125,275,182 (2022: B/.129,803,846) (See Note 18).

The classification by type of interest rate of the loan portfolio is detailed below:

	2023	2022
Fixed rate	856,047,401	804,889,852
Adjustable rate	5,281,131,798	5,260,801,086
Variable rate (Libor or Prime)	167,085,095	155,285,223
	6,304,264,294	6,220,976,161

Finance leases

The balance of net finance leases and the maturity profile is summarized as follows:

	2023	2022
Up to 1 year	8,242,262	4,420,616
1 to 5 years	37,345,019	31,338,013
Total	45,587,281	35,758,629
Less: unearned interest	(7,101,759)	(4,275,182)
Total finance leases, net	38,485,522	31,483,447

Restructured loans

The restructuring activities include payment agreements, approved external management plans and modification of the payment plan. 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, 2023, restructured loans that would otherwise be overdue or impaired totaled B/.174,973,688 (2022: B/.100,364,155).

	2023	2022
Consumer:		
Personal loans	33,507,226	17,677,422
Mortgage:	85,038,995	35,670,280
Corporate:		
Commercial	56,427,467	47,016,453
Total	174,973,688	100,364,155

11. Property, plant, equipment and improvements

2023

	Land	Property	Furniture and office equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At beginning of the year	16,203,604	145,386,134	34,628,450	90,426,217	3,116,163	14,338,793	25,157,505	329,256,866
Additions or purchases	-	-	116,416	520,086	345,000	1,600	11,403,006	12,386,108
Reclassifications	-	1,182,575	614,957	9,479,526	-	314,038	(11,591,096)	-
Sales and write-offs	(4,071,192)	(1,499,436)	(780,504)	(825,044)	(479,709)	(2,250,321)	-	(9,906,206)
At end of the year	12,132,412	145,069,273	34,579,319	99,600,785	2,981,454	12,404,110	24,969,415	331,736,768
Accumulated depreciation and amortization:								
At beginning of the year	-	30,139,952	29,636,754	61,854,532	2,230,619	7,635,359	-	131,497,216
Expense for the year	-	4,008,177	2,206,586	7,199,143	391,742	625,524	-	14,431,172
Sales and write-offs	-	(661,810)	(600,043)	(752,617)	(476,774)	(2,118,563)	-	(4,609,807)
At end of the year	-	33,486,319	31,243,297	68,301,058	2,145,587	6,142,320	-	141,318,581
Net balances	12,132,412	111,582,954	3,336,022	31,299,727	835,867	6,261,790	24,969,415	190,418,187

2022

	Land	Property	Furniture and office equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At beginning of the year	13,003,604	139,704,947	33,785,297	88,568,905	3,339,374	14,004,967	20,873,115	313,280,209
Additions or purchases	3,200,000	9,412	135,183	788,537	370,400	-	14,534,655	19,038,187
Reclassifications	-	6,223,946	1,125,481	2,119,880	128,000	652,958	(10,250,265)	-
Sales and write-offs	-	(552,171)	(417,511)	(1,051,105)	(721,611)	(319,132)	-	(3,061,530)
At end of the year	16,203,604	145,386,134	34,628,450	90,426,217	3,116,163	14,338,793	25,157,505	329,256,866
Accumulated depreciation and amortization:								
At beginning of the year	-	26,619,005	27,430,347	55,300,000	2,525,813	6,374,691	-	118,249,856
Expense for the year	-	3,896,442	2,640,303	7,562,265	415,252	1,579,126	-	16,093,388
Sales and write-offs	-	(375,495)	(433,896)	(1,007,733)	(710,446)	(318,458)	-	(2,846,028)
At end of the year	-	30,139,952	29,636,754	61,854,532	2,230,619	7,635,359	-	131,497,216
Net balances	16,203,604	115,246,182	4,991,696	28,571,685	885,544	6,703,434	25,157,505	197,759,650

12. Right-of-use assets and lease liabilities

a) Right-of-use assets

Right-of-use assets are presented below:

Building and land	**2023**	**2022**
Cost:		
Balance at beginning of the year	25,694,588	26,404,100
Additions	-	4,697
Adjustment of right-of-use assets	-	453,002
Write-offs	-	(1,167,211)
Balance at end of the year	25,694,588	25,694,588
Accumulated depreciation and amortization:		
Balance at beginning of the year	10,109,766	6,978,593
Expenses for the year	2,283,787	3,131,173
Balance at end of the year	12,393,553	10,109,766
Net balance	13,301,035	15,584,822

Amounts recognized in the consolidated statement of profit or loss:

	2023	**2022**
Depreciation expenses in right-of-use assets	2,283,787	3,131,173
Interest expenses on lease liabilities	553,288	658,140
	2,837,075	3,789,313

b) Lease liabilities

The following table shows the maturity terms of contingent operating lease commitments under IFRS 16:

	2023	**2022**
Up to 1 year	1,777,588	1,980,698
Between 1 and 5 years	5,447,260	6,008,536
5 years or more	8,077,881	9,288,186
Total	15,302,729	17,277,420

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

13. Other assets

	2023	2022
Accounts receivable related companies	104,162,869	83,899,254
Goodwill (a)	92,014,817	92,014,817
Accounts receivable National Treasury	60,715,664	49,722,883
Accounts receivable	53,932,947	43,902,257
Investment properties (c)	52,860,897	52,860,897
Repossessed assets	52,584,396	52,358,949
Deferred income tax (b)	52,252,045	51,891,478
Intangible assets (d)	17,831,449	19,374,790
Prepaid expenses	13,761,249	12,066,373
Insurance premiums receivable	9,055,136	9,177,768
Guarantee deposits	8,971,154	10,897,014
Severance fund	8,699,183	8,114,690
Hedging derivative (e)	7,290,393	9,491,336
Reinsurers' participation	5,146,661	5,080,767
Insurance company claims	3,997,339	4,566,268
Tax credit - agricultural subsidy	3,920,702	3,814,930
Customer obligations for acceptances	1,309,166	161,201
Judicial deposits	772,817	2,906,333
Others	35,502,586	35,074,425
	584,781,470	547,376,430

(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	2023	2022
June 1999	Banco Confederado de América Latina, S.A. (COLABANCO)	100%	8,330,187	8,330,187
December 2004	Afianzadora Colón, S.A.	100%	25,000	25,000
December 2014	PROGRESO - Administradora Nacional de Inversiones, Fondos de Pensiones y Cesantías, S.A.	100%	8,407,500	8,407,500
December 2018	Banco Panameño de la Vivienda, S.A. and Subsidiaries	99.972%	75,252,130	75,252,130
			92,014,817	92,014,817

(b) Deferred income tax

Details of deferred income tax can be found in Note 30.

(c) Investment properties

As of June 30, 2023, investment properties consist of real estate for future development with a value of B/.86,861,200 (2022: B/.86,861,200) according to the appraisal performed by Avalúos Inspecciones y Construcciones S.A., an independent appraiser of the Bank with experience and capacity to perform these appraisals. The fair value is based on the market methodology where the sales price per square meter of the land is the most relevant input. Fair value has been classified in level 3 of the IFRS 13 valuation hierarchy.

(d) Intangible assets

	2023	2022
Cost:		
Right to manage HSBC Investment Corporation (Panama), S.A.'s severance fund portfolio	1,389,963	1,389,963
Trademark rights and other intangibles	8,454,809	8,454,809
Intangible assets from the purchase of Banvivienda	15,500,000	15,500,000
	25,344,772	25,344,772
Accumulated amortization:		
Balance at beginning of the year	5,969,982	4,426,642
Amortization	1,543,341	1,543,340
	7,513,323	5,969,982
Net balance at end of the year	17,831,449	19,374,790

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, 2023 and 2022, there were no impairment losses recognized in goodwill or intangible assets. The valuation made using the discount method of net future cash flows generated by the acquired assets or business, indicates that the present value of these exceeds the carrying value of goodwill or intangible assets.

To carry out the valuation of acquired assets and businesses, expected net cash flows of assets or businesses were projected for periods five years, and also an increase is defined in perpetuity or flow multiples at the end of the projected flow period to estimate the terminal flow. Growth rates in the assets or businesses fluctuate based on their nature, while the perpetual growth rates is 3.5%.

- To determine the growth rates of the assets or businesses, we used as reference the real historical growth, performance, and metrics of the relevant assets or businesses, their future perspectives, the anticipated macroeconomic growth of the country which is between 4% and 5% during the five years of projection. Segments or businesses were evaluated, as well as the Bank's business plans and expected growth rates in general, and also for specific businesses under evaluation.

- To calculate the present value of future cash flows and determine the value of assets and businesses under assessment, the discount rate was used as the estimated average capital cost of the Bank for the periods referred to when the business unit assessed is the Bank. When the flows of asset funds or units are discounted with a profile different from the Bank, the capital cost 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 the Bank’s capital is approximately 11%.

- 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.

(e) Hedging derivatives

The Bank reduces its credit risk in relation to these agreements by using financially sound institutions as counterparties. These contracts are recorded at fair value in the consolidated statement of financial position using the fair value hedge or cash flow hedge methods, in other assets and other liabilities, as appropriate.

Fair value hedging

In order to manage its position in the consolidated statement of financial position, the Bank has entered into interest rate swap contracts for financings with a face value of B/.200,000,000 as of June 30, 2023 and 2022, which allow it to convert from variable to fixed interest rates during each payment period.

The following is a summary of derivative contracts by maturity and method of accounting:

		2023 Remaining maturity of notional amount	
Method of accounting	**Over 1 year**	**Less than 1 year**	**Total**
Fair value	-	200,000,000	200,000,000
Total	-	200,000,000	200,000,000

		2022 Remaining maturity of notional amount	
Method of accounting	**Over 1 year**	**Less than 1 year**	**Total**
Fair value	200,000,000	-	200,000,000
Total	200,000,000	-	200,000,000

The notional amount and estimated fair value of interest rate derivative instruments at June 30, 2023 and 2022 are presented in the table below. The fair value of derivative financial instruments is estimated using valuation models with observable market data.

	2023	
Type	**Nominal value**	**Fair value**
Derivatives for fair value hedging (for financing)	200,000,000	7,290,393
Total	200,000,000	7,290,393

	2022	
Type	**Nominal value**	**Fair value**
Derivatives for fair value hedging (for financing)	200,000,000	9,491,336
Total	200,000,000	9,491,336

14. Client deposits

2023	Demand	Savings	Time	Total
Economic sector				
Corporate	397,897,889	359,399,246	2,168,264,354	2,925,561,489
Personal	82,277,349	779,129,299	1,418,608,150	2,280,014,798
	480,175,238	1,138,528,545	3,586,872,504	5,205,576,287
Sector				
Domestic	455,817,928	1,076,666,537	3,235,019,868	4,767,504,333
Foreign	24,357,310	61,862,008	351,852,636	438,071,954
	480,175,238	1,138,528,545	3,586,872,504	5,205,576,287

2022	Demand	Savings	Time	Total
Economic sector				
Corporate	443,921,980	437,053,382	2,059,775,129	2,940,750,491
Personal	87,602,980	840,181,505	1,310,124,660	2,237,909,145
	531,524,960	1,277,234,887	3,369,899,789	5,178,659,636
Sector				
Domestic	502,842,948	1,207,883,094	2,896,147,616	4,606,873,658
Foreign	28,682,012	69,351,793	473,752,173	571,785,978
	531,524,960	1,277,234,887	3,369,899,789	5,178,659,636

15. Securities sold under repurchase agreements

As of June 30, 2023, there are repurchase agreements for B/.70,009,751 (2022: B/.93,665,393), guaranteed by investments at fair value through other comprehensive income for B/.63,689,175 (2022: B/. 56,280,642) and securities at amortized cost for B/.21,183,781 (2022: B/.47,176,727), at interest rates between 4.42% and 6.34% (2022: 1.00% and 4.17%), maturing in August 2023 and June 2024 (2022: maturing in August 2022, September 2022 and June 2023).

Securities sold under repurchase agreements at amortized cost are detailed below:

	2023	**2022**
Securities sold under repurchase agreements	70,009,751	93,665,393
Accrued interest payable	745,861	105,991
Securities sold under repurchase agreements at amortized cost	70,755,612	93,771,384

16. Obligations with financial institutions

	2023	**2022**
As of June 30, 2023 there are obligations with other banks for financing foreign trade, with various maturities until December 2024 and annual interest rates between 2.40% and 7.50% (2022: between 0.6231% and 4.9659%).	406,921,939	386,872,730
As of June 30, 2023, there is an obligation with a financial institution for short-term liquidity management, with renewable maturity as of June 2024 and interest rates between 2.15% and 6.75%, reviewed semiannually (2022: between 2.15% and 3.24%).	138,254,393	95,006,833
As of June 30, 2023 there are obligations with international organizations for long-term liquidity management, with renewable maturities between September 2023 and September 2025 and interest rates between 7.351% and 7.651% (2022: between 3.328% and 3.731%).	53,207,262	84,507,016
As of June 30, 2023 there are obligations with foreign banks for working capital, with various maturities until August 2031 and annual interest rates between 1.50% and 9.37518% (2022: between 1.50% and 5.1135%).	829,158,492	799,542,363
As of June 30, 2023 there are obligations with multilateral financial institutions, with various maturities and final maturities from October 2023 to March 2028; interest rates are between 3.50% and 7.74%, reviewed semiannually (2022: between 2.2546% and 4.885%).	155,335,496	122,677,352
	1,582,877,582	1,488,606,294

As of June 30, 2023, there are investments at fair value through other comprehensive income for B/.153,404,683 (2022: B/.109,470,267) and securities at amortized cost for B/.29,208,650 (2022: B/.19,793,200) that guarantee these obligations with financial institutions. In addition, there are restricted time deposits as of June 30, 2023 for B/.3,025,795 (2022: B/.4,227,529), which guarantee these obligations with financial institutions.

The Bank is in compliance with the maturity payments of principal and interest, as well as the contractual clauses in relation to its obligations and placements.

Obligations with financial institutions at amortized cost are detailed below:

	2023	2022
Obligations with financial institutions	1,582,877,582	1,488,606,294
Accrued interest payable	20,865,348	8,752,030
Obligations with financial institutions at amortized cost	1,603,742,930	1,497,358,324

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

	2023	2022
Balance at beginning of the year	1,488,606,294	876,325,546
Other movements	(2,200,942)	9,284,464
Obligations received	1,766,870,623	1,844,685,880
Payments made	(1,670,398,393)	(1,241,689,596)
Balance at end of the year	1,582,877,582	1,488,606,294

17. Marketable securities (VCNs)

Series	Issuance date	Interest rate	Maturity	2023	2022
D-J	Apr-22	1.75%	Oct-22	-	6,000,000
D-K	Apr-22	2.00%	Apr-23	-	2,000,000
D-L	Apr-22	1.75%	Oct-22	-	5,575,000
D-M	May-22	2.00%	Nov-22	-	2,000,000
D-N	May-22	2.50%	May-23	-	1,020,000
				-	16,595,000

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

	2023	2022
Balance at beginning ot the year	16,595,000	6,850,000
Proceeds from issuance	9,545,000	16,595,000
Redemptions	(26,140,000)	(6,850,000)
Balance at end of the year	-	16,595,000

Marketable securities at amortized cost are detailed below:

	2023	2022
Marketable securities	-	16,595,000
Accrued interest payable	-	13,429
Marketable securities at amortized cost	-	16,608,429

18. Corporate bonds

Type	Interest rate	Maturity	2023	2022
Series B - August 2018 issue	5.25%	Aug-22	-	24,799,551
Series C - August 2018 issue	5.50%	Aug-23	34,976,155	34,837,907
Series A - April 2019 issue	5.25%	Apr-29	353,474,574	379,597,842
			388,450,729	439,235,300

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

August 2018 issuance - The bond issuance was guaranteed through a Guarantee Trust with the Trustee Agent in favor of which Mortgage Loans were assigned with a total value covering at least 120% of the Outstanding Principal Balance of the Bonds issued and outstanding. Interest was payable quarterly and the principal of the bonds at maturity. Series A issue was paid in August 2021.

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

As of June 30, 2023, there are corporate bonds held in trust loan guarantees totaling B/.125,275,182 (2022: B/.129,803,846). (See Note 10).

Corporate bonds at amortized cost are detailed below:

	2023	2022
Corporate bonds	388,450,729	439,235,300
Accrued interest payable	3,955,433	4,299,929
Corporate bonds at amortized cost	392,406,162	443,535,229

19. Perpetual bonds

Perpetual bonds of any series are unsecured and can be redeemed, totally or partially, at the Issuer's choice staring from the sixth year after the issuance date of the respective series and have no guarantee.

Type	Interest rate	2023	2022
Series A - May 2016 issue	6.75%	24,003,842	23,955,318
Series B - July 2016 issue	6.75%	90,400,883	90,587,923
Series C - May 2018 issue	6.75%	5,191,950	5,191,950
Series D - May 2019 issue	6.75%	16,587,198	16,578,666
Series E - June 2020 issue	6.75%	4,611,000	4,611,000
Series F - September 2020 issue	6.50%	5,299,000	5,299,000
Series G - December 2020 issue	6.50%	14,701,000	14,701,000
Series H - September 2021 issue	5.75%	15,000,000	15,000,000
Series I - December 2021 issue	5.75%	2,171,000	1,571,000
		177,965,873	177,495,857

Perpetual bonds at amortized cost are detailed as follows:

	2023	2022
Perpetual bonds	177,965,873	177,495,857
Accrued interest payable	40,151	40,037
Perpetual bonds at amortized cost	178,006,024	177,535,894

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

	2023	2022
Balance at beginning of the year	616,731,157	1,224,260,988
Proceeds from issuance	600,000	16,601,000
Debt issuance cost / amortization of debt issuance cost	799,005	1,535,719
Redemptions	(51,306,097)	(625,806,718)
Premium, discount/amortization of discount premium	(407,463)	140,168
Balance at end of the year	566,416,602	616,731,157

20. Other liabilities

	2023	2022
Cashier's checks and certificates	26,212,058	23,595,816
Other creditors	24,684,922	28,462,279
Employee benefits and other labor liabilities	21,757,063	19,843,475
Reserves from insurance operations (Note 21)	15,678,014	15,720,766
Other provisions	10,002,479	9,070,284
Factoring guarantee deposits (a)	6,310,653	8,165,251
Judicial and other deposits	3,427,953	3,614,713
Insurance accounts payable	2,316,930	2,209,411
Special Interest Compensation Fund (FECI) accounts payable	1,892,616	2,183,656
Acceptances outstanding	1,309,166	161,201
Income tax payable	531,062	132,016
Others	5,341,490	5,953,723
	119,464,406	119,112,591

a) Guarantees withheld by customers and others

Guarantees withheld by customers consist of a percentage value of each discounted invoice withheld until collection is effective. If at the end of the contract the invoice becomes uncollectible, the Bank reduces the account receivable by the balance of the factoring guarantee deposit of the related transaction.

21. Reserves from insurance operations

Unearned premiums

	2023	2022
Balance at beginning of the year	10,476,953	7,226,720
Premiums issued	34,440,559	34,530,975
Premiums earned	(17,975,119)	(17,233,547)
Balance at end of the year	26,942,393	24,524,148
Reinsurers' participation		
Premiums ceded	(15,555,860)	(13,175,720)
Unearned premiums	(751,122)	(871,475)
Unearned premiums, net	10,635,411	10,476,953

Estimation of outstanding claims	**2023**	**2022**
Balance at beginning of the year	5,243,813	5,611,340
Incurred claims	10,738,764	10,226,365
Claims paid	(10,939,974)	(10,593,892)
Balance at end of the year	5,042,603	5,243,813
	15,678,014	15,720,766

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

22. Common shares

As of June 30, 2023, the authorized capital of Global Bank Corporation consists of 2,000,000 common shares without par value, of which 236,600 (2022: 236,600) shares are issued and outstanding for a value of B/.270,202,657 (2022: B/.270,202,657).

As of June 30, 2023, dividends were paid on common shares approved by the Board of Directors for a total of B/.96,002,266 (2022: B/.23,664,251).

23. Interest and commission income and expense

	2023	**2022**
Interest earned on:		
Loans	407,348,751	380,271,320
Deposits	7,633,467	1,196,076
Investments	39,351,669	37,645,520
	454,333,887	419,112,916
Interest expense:		
Deposits	(168,071,700)	(156,906,509)
Obligations with financial institutions and repurchase agreements	(79,821,773)	(37,432,972)
Marketable securities and bonds	(33,942,818)	(43,713,925)
	(281,836,291)	(238,053,406)
Net interest income	172,497,596	181,059,510
Commissions earned on:		
Loans	29,347,204	25,971,375
Letters of credit	3,949,560	1,455,308
Savings and debit card accounts	4,003,016	4,058,996
Trust and administration services	10,477,228	11,842,916
Others	18,567,047	14,469,719
	66,344,055	57,798,314
Commission expenses	(22,088,949)	(19,374,865)
Net commission income	44,255,106	38,423,449
Net interest and commission income	216,752,702	219,482,959

24. Other income, net

	2023	**2022**
Insurance premiums, net	14,701,494	12,794,792
Gain on sale of investments through other comprehensive income (OCI)	388,602	1,154,420
Trust services and securities brokerage, net	302,931	455,163
Gain (loss) on instruments at fair value through profit or loss, net	60,788	(680,871)
Loss on sale of investments through profit or loss	(6,260)	-
Other income (expense)	6,564,154	114,568
	22,011,709	13,838,072

25. Other expenses

	2023	2022
Provision for mileage redemption	3,626,025	3,300,000
Surveillance	1,795,984	1,788,377
Communications and mail	1,751,844	1,830,538
Utility services	1,588,685	1,521,961
Supplies and stationery	529,670	492,312
Insurance	261,405	217,438
Other operating expenses	6,720,892	6,639,194
Other general expenses	7,108,218	8,078,811
	23,382,723	23,868,631

26. Excess paid-in capital

Employee stock option plan

As of June 30, 2023, key executives do not hold stock option plans on common shares of the Parent Company (G.B. Group Corporation) (2022: 15,562). The Bank did not recognize expense on this benefit (2022: B/.218,945) in the consolidated statement of profit or loss (2022: salaries and other personnel expenses).

Restricted stock plan

In August 2022, G.B Group Corporation's Board of Directors approved reserving a total of up to 12,351 common shares of its authorized capital for awards under the Restricted Stock Plan for participants, which will be in effect for the 2023-2024 period.

In August 2021, the Board of Directors of G.B Group Corporation approved reserving a total of up to 14,264 common shares of its authorized capital to vest under the Restricted Stock Plan for participants, which will be in effect for the 2022-2023 period.

The number of shares to be awarded will be determined annually by the Compensation Committee of the Board of Directors of G.B. Group Corporation based on the performance of the Bank and the participants.

Shares granted to participants are awarded at the average price of the Panama Stock Exchange for the month prior to the award.

Once the restricted shares are granted, the participant will be able to dispose of them as follows: 50% after the first year and 50% in the second year.

Since the restricted stock plan is unilateral and voluntary, it may be discontinued by the Board of Directors of G.B. Group Corporation at any time.

In 2023, 5,864 (2022: 1,291) shares were granted under the restricted stock plan and an expense of B/.470,796 (2022: B/.51,534) was recorded.

27. Commitments and contingencies

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

	2023	2022
Letters of credit	176,006,674	117,640,132
Endorsements and guarantees	610,223,411	477,222,821
Promissory notes	200,699,607	248,342,285
Unused credit lines granted	557,564,622	464,998,977
Total	1,544,494,314	1,308,204,215

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

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

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

28. Management of trust contracts and investment portfolio

As of June 30, 2023, the Bank held in administration trust contracts at the account and risk of customers amounting to B/.2,934,842,204 (2022: B/.3,071,833,622).

	2023	2022
Guarantee trust	2,661,669,988	2,800,981,234
Administration trust	152,301,601	140,869,052
Investment trust	113,904,289	126,408,057
Escrow assets	4,863,233	588,860
Pension trust	2,103,093	2,479,089
Testamentary trust	-	507,330
	2,934,842,204	3,071,833,622

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

29. Pension and severance fund management

	2023	2022
Severance fund	319,094,430	306,211,842
Pension Fund (under Law No. 10)	227,237,564	223,008,461
Citibank, N. A.	2,047,054	2,727,877
Pribanco and Conase Plus	-	1,484
Other assets under management	34,426,299	30,720,567
	582,805,347	562,670,231

30. Income tax

Income Tax returns of banks incorporated in the Republic of Panama are subject to review by the tax authorities for the last three years, including the year ended June 30, 2023, in accordance with current tax regulations.

According to current Panamanian Tax Legislation, banks are exempt from paying income tax on foreign source earnings. Also exempt from income tax are interest earned on time deposits in local banks, interest earned on Panamanian government securities and investments in securities issued through the Panamanian Stock Exchange.

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

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

The current income tax expense is detailed below:

	2023	2022
Current income tax	3,825,471	3,667,996
Deferred income tax on temporary differences	(360,567)	(5,249,226)
Income tax expense (benefit)	3,464,904	(1,581,230)

The average effective current income tax rate is 7.51% (2022: 10.28%).

The item with tax effect that composes the deferred tax asset included in the consolidated statement of financial position is mainly the allowance for possible loan losses and the tax effect of goodwill, which is detailed below:

	2023	2022
Balance at beginning of the year	51,891,478	46,642,252
Credit to profit or loss during the year	360,567	5,249,226
Balance at end of the year	52,252,045	51,891,478

The deferred asset is recognized based on deductible tax differences considering its past operations and projected taxable income, which are influenced by Management's estimates. Based on current and projected results, the Bank's Management believes that there will be sufficient taxable income to absorb the deferred income tax detailed above.

A reconciliation of income taxes is presented as follows:

	2023	2022
Profit before income tax	50,970,830	35,682,264
Less: non-taxable income	(165,862,132)	(100,262,894)
Plus: non-deductible expenses	130,123,652	79,244,898
Plus: tax loss in subsidiaries	69,418	7,715
Taxable income	15,301,768	14,671,983
Income tax computation at 25%.	3,825,442	3,667,996
Remittance income tax	29	-
Current income tax expense	3,825,471	3,667,996

The deferred income tax asset is detailed below:

	2023	2022
Deferred income tax asset:		
Allowance for expected losses	54,433,116	54,452,586
Acquired intangible assets - core deposit	(2,529,507)	(2,852,424)
Other provision	348,436	291,316
Deferred income tax asset	52,252,045	51,891,478

The reconciliation of prior year deferred income taxes to current year is as follows:

2023		**Charge to profit or loss**	
Deferred income tax assets:			
Allowance for expected losses	54,452,586	(19,470)	54,433,116
Acquired intangible assets - core deposit	(2,852,424)	322,917	(2,529,507)
Other provision	291,316	57,120	348,436
Deferred income tax asset	51,891,478	360,567	52,252,045

2022		**Charge to profit or loss**	
Deferred income tax assets:			
Allowance for expected losses	49,691,816	4,760,770	54,452,586
Acquired intangible assets - core deposit	(3,175,344)	322,920	(2,852,424)
Other provision	125,780	165,536	291,316
Deferred income tax asset	46,642,252	5,249,226	51,891,478

Transfer Pricing:

On August 29, 2012, Law No.52 came into force, which reforms the regulations regarding Transfer Pricing, a pricing regime oriented to regulate the transactions carried out between related parties for tax purposes, so that the considerations between them are similar to those carried out between independent parties. According to such rules, taxpayers that carry out transactions with related parties that have effects on income, costs or deductions to determine the taxable income for income tax purposes of the tax period in which the transaction is declared or carried out, must prepare annually a report of the transactions carried out within the six months following the end of the corresponding tax period (Form 930). Said operations must be submitted to a study in order to establish their compliance with the assumption contemplated in the Law.

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

31. Segment information

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

	2023			
	Banking and financial activities	**Insurance**	**Pension and severance funds**	**Consolidated total**
Interest and commission income	509,084,428	2,602,841	8,990,673	520,677,942
Interest expense and provisions	353,682,597	16,856	21,505	353,720,958
Other income, net	6,811,331	14,928,027	272,351	22,011,709
Other expenses	110,185,318	6,893,466	2,660,779	119,739,563
Depreciation and amortization expense	18,093,618	11,641	153,041	18,258,300
Profit before income tax	33,934,226	10,608,905	6,427,699	50,970,830
Income tax	55,732	2,202,186	1,206,986	3,464,904
Net income	33,878,494	8,406,719	5,220,713	47,505,926
Total assets	8,298,521,727	73,934,911	40,522,261	8,412,978,899
Total liabilities	7,677,993,502	23,019,838	212,315	7,701,225,655

	2022			
	Banking and financial activities	**Insurance**	**Pension and severance funds**	**Consolidated total**
Interest and commission income	465,177,669	2,176,328	9,557,233	476,911,230
Interest expense and provisions	318,287,810	164,339	(129)	318,452,020
Other income, net	521,673	13,141,535	174,864	13,838,072
Other expenses	106,207,599	6,643,777	2,995,741	115,847,117
Depreciation and amortization expense	20,582,636	11,640	173,625	20,767,901
Income before income tax	20,621,297	8,498,107	6,562,860	35,682,264
Income tax (benefit)	(4,601,401)	1,724,661	1,295,510	(1,581,230)
Net income	25,222,698	6,773,446	5,267,350	37,263,494
Total assets	8,300,434,963	64,270,639	35,890,833	8,400,596,435
Total liabilities	7,617,062,816	22,746,001	633,279	7,640,442,096

32. Subsidiaries of the Bank

The following are the Bank's subsidiaries, their main economic activity, date of incorporation, beginning of operations, country of incorporation and percentage of ownership of such companies:

Companies	Main economic activty	Date of incorporation	Beginning of operations	Country of incorporation	Percentage of ownership
Global Financial Funds Corporation	Fiduciary trust services	Sep-95	1995	Panama	100%
Global Capital Corporation	Corporate finance and financial advisory	May-93	1994	Panama	100%
Global Capital Investment Corporation	Purchase of discounted invoices factoring	Jun-93	1993	British Virgin Island	100%
Global Valores, S. A.	Stock brokers	Aug-02	2002	Panama	100%
Global Bank Overseas and Subsidiaries	Foreign banking	Aug-03	2003	Montserrat	100%
Aseguradora Global, S. A.	Subscription and issuance of insurance policies	Apr-03	2004	Panama	100%
Durale Holdings, S. A.	Ownership and management of real estate	Jan-06	2006	Panama	100%
Progreso AFPC, S.A.	Pension Fund Management	Oct-98	2014	Panama	100%
Anverli Investment Corporation	Ownership and management of real estate	Jan-17	2017	Panama	100%
Banvivienda Leasing & Factoring	Financial leasing	Oct-06	2007	Panama	100%

33. Regulatory aspects and capital reserve

The following is a detail of the regulatory reserves:

	2023	2022
Regulatory reserves:		
Dynamic reserve	87,863,198	87,863,198
Foreclosed assets reserve	15,637,168	13,864,795
Equity reserve - investments	642,191	255,803
	104,142,557	101,983,796

Agreement No.4-2013

Loan portfolio classification and allowance for loan losses based on Agreement No.4-2013:

2023

	Normal	Special Mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	2,408,102,317	339,277,338	78,902,051	67,142,622	125,988,166	3,019,412,494
Consumer loans	2,957,385,758	95,189,798	24,945,937	18,198,211	60,461,886	3,156,181,590
Other loans	128,360,368	309,760	82	-	-	128,670,210
Total	5,493,848,443	434,776,896	103,848,070	85,340,833	186,450,052	6,304,264,294
Specific provision	-	22,846,236	15,188,911	22,340,773	109,060,100	169,436,020

2022

	Normal	Special Mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	2,369,289,585	286,213,983	69,914,548	70,708,587	117,257,072	2,913,383,775
Consumer loans	2,607,972,700	29,088,816	25,775,155	18,365,416	27,224,721	2,708,426,808
Other loans	154,901,052	-	-	-	-	154,901,052
Total	5,132,163,337	315,302,799	95,689,703	89,074,003	144,481,793	5,776,711,635
Specific provision	-	18,806,109	12,180,772	20,808,176	83,399,438	135,194,495

The classification of the loan portfolio by maturity profile based on Agreement No.4-2013:

2023

	Current	Delinquent	Overdue	Total
Corporate	2,880,527,395	6,258,880	132,626,219	3,019,412,494
Consumer	2,993,805,778	82,517,960	79,857,852	3,156,181,590
Other	128,360,368	-	309,842	128,670,210
Total	6,002,693,541	88,776,840	212,793,913	6,304,264,294

2022

	Current	Delinquent	Overdue	Total
Corporate	2,900,139,743	6,005,334	117,650,351	3,023,795,428
Consumer	2,883,605,449	81,176,264	77,188,246	3,041,969,959
Other	154,901,052	-	309,722	155,210,774
Total	5,938,646,244	87,181,598	195,148,319	6,220,976,161

As of June 30, 2023, loans in nonaccrual status represent B/.151,038,705 (2022: B/.144,717,567).

Accounting treatment of the 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 the General Resolution of the SBP Board of Directors GJD-0003-2013, the accounting treatment of the differences between prudential standards and IFRSs is established based on the following methodology.

- The respective figures of the calculations of the IFRSs application and prudential standards issued by the Superintendency of Banks of Panama (SBP) will be made and compared.
- When the calculation made in accordance with IFRS results in a provision greater than the one resulting from the use of prudential standards, the IFRS figures shall be accounted for.
- When the use of prudential standards results in a higher provision, the IFRS figures will also be recorded in profit or loss and the difference will be taken from retained earnings, which will be transferred to a regulatory reserve in equity. In the event that the Bank does not have sufficient retained earnings, this difference will be presented as an accumulated deficit account.
- The regulatory reserve mentioned in the previous point cannot be reversed against retained earnings, as long as the differences between IFRSs and the prudential standards that originated it, exist.

Dynamic reserve

According to Agreement No.4-2013, the restrictions of the dynamic provision establish that the amount cannot be less than the amount established in the previous quarter. As of June 30, 2023, the dynamic provision was for B/.87,863,198 (2022: B/.87,863,198).

By means of General Resolution of the Board of Directors SBP-GJD-R-2023-01125 of June 6, 2023, the General Resolution of the Board of Directors SBP-GJD-0007-2020 of July 16, 2020, which temporarily suspended the obligation to constitute the dynamic provision, was repealed in all its parts.

Off-balance sheet transactions

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

2023	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	176,006,674	-	-	-	-	176,006,674
Endorsements and guarantees	610,223,411	-	-	-	-	610,223,411
Promissory notes	200,699,607	-	-	-	-	200,699,607
Unused credit lines	557,564,622	-	-	-	-	557,564,622
Total	1,544,494,314	-	-	-	-	1,544,494,314

2022	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	117,640,132	-	-	-	-	117,640,132
Endorsements and guarantees	477,222,821	-	-	-	-	477,222,821
Promissory notes	248,342,285	-	-	-	-	248,342,285
Unused credit lines	464,998,977	-	-	-	-	464,998,977
Total	1,308,204,215	-	-	-	-	1,308,204,215

Letters of credit, guarantees issued and promissory notes are exposed to credit losses in the event that the customer does not comply with its obligation to pay. The Bank's policies and procedures for approving commitments of credit, financial guarantees and promissory notes are the same as those used for granting loans recorded in the consolidated statement of financial position.

However, letters of credit, most of which are utilized, the majority are on demand and their payment is immediate.

Lines of credit for customer disbursements correspond to secured loans pending disbursement, which are not shown in the consolidated statement of financial position, but are recorded in the Bank's memorandum accounts.

Foreclosed assets

As of June 30, 2023, the regulatory provision on foreclosed assets totals B/.15,637,168 (2022: B/.13,864,795), based on the provisions of Agreement No.3-2009 of the Superintendency of Banks of Panama.

Premiums and notes receivable

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

a) Suspension of coverage: when the contracting party has made the payment of the first fraction of the premium and is delayed for more than the end of the grace period stipulated in the payment of any of the fractions of subsequent premiums, it will be understood that it has incurred in default of payment, according to the payment schedule established in the corresponding policy, which has the immediate legal effect of suspending the coverage of the policy for up to sixty days.

b) The suspension of coverage shall be maintained until the default ceases, and may be reinstated upon payment of the premium not paid during said period or until the policy is cancelled, in accordance with the provisions of Article 161.

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

a) Any notice of cancellation of the policy shall be notified by mailing to the contracting party at the last physical, postal or electronic address recorded in the policy file maintained by the insurer. A copy of the notice of cancellation shall be issued to the insurance broker.

b) Any change of address of the contracting party must be notified to the insurer, otherwise the last address on file with the insurer shall be considered valid.

c) The notice of cancellation of the policy for non-payment of the premium must be sent to the contracting party in writing, fifteen working days in advance. If the notice is not sent, the contract shall remain in force and the provisions of Article No. 998 of the Code of Commerce shall apply.

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. Among the main aspects of this Law are the following: authorization of banking licenses, minimum capital and liquidity requirements, consolidated supervision, credit and market risk management procedures, money laundering prevention, and bank intervention and liquidation procedures, among others. Likewise, banks will be subject, at least, to an inspection every two (2) years by the auditors of the Superintendency of Banks of Panama, to determine compliance with the provisions 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.

Regulatory compliance

Liquidity Ratio

As of June 30, 2023, the liquidity ratio percentage reported to the regulator under the parameters of Agreement No.4-2008 was 36.34% (2022: 40.60%) (See Note 4.3).

Capital Adequacy

The Law requires general license banks to maintain a minimum paid-in share capital or assigned capital of ten million balboas (B/.10,000,000) and capital funds of not less than 8% of their weighted assets, including off-balance sheet operations. As of June 30, 2023, it presents consolidated capital funds of approximately 13.12% (2022: 15.11%) over its risk-weighted assets, according to Agreement No.1-2015, Agreement No.3-2016 and the new agreements, Agreement No.11-2018 and Agreement No.2-2018. (See Note 4.7).

By means of General Board Resolution SBP-GJD-R-2023-01034 of April 11, 2023, General Board Resolution SBP-GJD-0005-2020 was repealed, where, as a consequence of the effects of the global health pandemic COVID-19 decreed by the World Health Organization (WHO), the need and convenience of establishing special temporary measures became evident such as the effects of Article No.2 of Agreement No.3-2016, and all risk assets classified in categories 7 and 8, whose weighting is 125% and 150% respectively, weighted as part of category 6, whose weighting is 100%.

The accounting treatment for the recognition of losses on loans, investment securities and foreclosed assets of borrowers in accordance with prudential regulations issued by the Superintendency of Banks of Panama, differs in some aspects from the accounting treatment in accordance with International Financial Reporting Standards, specifically IFRS 9 and IFRS 5. The Superintendency of Banks of Panama requires general license banks to apply these prudential standards.

b) Insurance and reinsurance laws

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

c) Securities Law

The operations of brokerage firms in Panama are regulated by the Superintendency of the Securities Market of Panama according to 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 Securities Brokerage Firms are in the process of adaptation to Agreement No.4-2011, modified in certain provisions through Agreement No.8-2013, established by the Superintendency of the Securities Market of Panama, which indicate that they are obliged to comply with the rules of capital adequacy and its modalities.

d) Trust Law

Trust operations in Panama are regulated by the Superintendency of Banks of Panama according to 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.

Capital Reserves

The Global Bank Overseas subsidiary, in accordance with the Montserrat banking regulator, establishes that every licensed financial institution shall maintain a reserve fund and, from its net profits for each year, shall transfer an amount equal to not less than 20 percent of such profits to that fund, provided that the amount of the reserve fund is less than 100 percent of the paid-in or, as the case may be, assigned capital of the financial institution. As of June 30, 2023, the reserve is B/.32,324,680 (2022: B/.32,324,680).

The following are the capital reserves:

	2023	**2022**
Capital reserve	32,324,680	32,324,680
Insurance reserves:		
Technical reserve	6,101,606	5,195,294
Legal reserve	5,749,193	5,749,193
	44,175,479	43,269,167

Technical reserves

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

These capital reserves must be covered with admitted assets free of encumbrances.

These reserves shall be cumulative. Their use and restitution will be regulated by the Superintendency of Insurance and Reinsurance of Panama when the loss ratio shows adverse results.

	Reserves for statistical deviations		Reserves for catastrophic and/or contingency risks	
	2023	2022	2023	2022
Balance at beginning of the year	2,597,647	2,154,517	2,597,647	2,154,517
Additions	453,156	443,130	453,156	443,130
Balance at end of the year	3,050,803	2,597,647	3,050,803	2,597,647

Legal reserve

The legal reserve of the subsidiary Aseguradora Global, S.A. is established in accordance with Article No.213 of Law No.12 of April 3, 2012, which establishes the following:

Insurers are obliged to form and maintain a reserve fund in the country equivalent to 20% of net profits before income tax, until constituting a fund of B/.2,000,000 and thereafter 10%, until reaching 50% of the paid-in capital.

The movement of the legal reserve is detailed below:

	2023	2022
Balance at beginning of the year	5,749,193	5,749,193
Balance at end of the year	5,749,193	5,749,193

34. Modified loans

Modified Special Mention category loans

On November 1, 2022, the Superintendency of Banks issued Agreement No.12-2022 establishing the parameters and guidelines for the definitive reestablishment of the Modified Special Mention portfolio to Agreement No.4-2013 and completely repealed Agreement No.2-2021 of June 11, 2021 and Agreement No.6-2021 of December 22, 2021 and all their amendments. Likewise, General Board Resolution No. SBP-GJD-0003-2021 of June 11, 2021 and General Board Resolution No. SBP-GJD-0004-2021 of June 21, 2021 were repealed.

The main provisions of Agreement No.12-2022 state that banks shall eliminate any denomination of "Modified Special Mention" credits from the accounting ledger accounts by the close of December 31, 2022 and thereafter. However, banks will use the codification assigned by the Superintendency for the identification and reporting of these credits.

Global Bank Corporation made the definitive reestablishment of the Modified Special Mention portfolio to Agreement No.4-2013 during the month of December 2022.

35. Migrated restructured loans

Agreement No.12-2022 establishes that banks will migrate the portfolio of modified credits classified in the category "Modified Special Mention" to the risk categories of Agreement No.4-2013, in accordance with the risk classification parameters established in Article No.3 of Agreement No.12-2022, for which purpose, in principle as a reference, the days of arrears maintained by each credit will be used according to the concepts of delinquent credit and past due credit defined in numerals 13 and 14 of Article No.2 of Agreement No.4-2013. Regardless of the days past due, if a client presents other weaknesses that could affect its payment capacity, as detailed in Article No.18 of Agreement No.4-2013, the reinstatement of the modified credits shall be made to the corresponding higher risk category.

The classification of the migrated restructured loan portfolio and loss reserves based on Agreement No.4-2013 is as follows:

2023

	Normal	Special Mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	4,562,363	3,092,700	2,798,407	854,125	1,966,711	13,274,306
Consumer loans	104,326,687	7,578,532	3,056,672	2,951,235	20,660,404	138,573,530
Other loans	-	309,760	-	-	-	309,760
Total	108,889,050	10,980,992	5,855,079	3,805,360	22,627,115	152,157,596
Specific provision	-	457,946	983,684	1,183,426	16,819,458	19,444,514

All loans in the "Modified Special Mention" portfolio reestablished to Agreement No.4-2013 through the provisions of Agreement No.12-2022, shall be considered as restructured loans. Consequently, in order for them to be reclassified to a lower risk category, the conditions of Article No.19 of Agreement No.4-2013 must be complied with and the six (6) month period referred to in said Article shall commence as of the date of migration (reestablishment) to said Agreement.

For credit risk coverage, banks shall establish provisions on the portfolio of loans reinstated to Agreement No.4-2013, ensuring compliance with the International Financial Reporting Standards (IFRSs) and taking into consideration the significant increase in risk. Additionally, they must establish the specific provisions required by the aforementioned Agreement.

2023

	Stage 1	Stage 2	Stage 3	Total
Migrated restructured loans				
Normal	57,801,367	51,087,684	-	108,889,051
Special mention	-	10,632,165	348,827	10,980,992
Subnormal	-	1,212,778	4,642,301	5,855,079
Doubtful	-	64,332	3,741,028	3,805,360
Uncollectible	-	943,591	21,683,523	22,627,114
Total migrated restructured portfolio	57,801,367	63,940,550	30,415,679	152,157,596
Provisions and reserves				
Provision IFRS 9	522,792	2,455,693	19,146,535	22,125,020
Total provisions and reserves	522,792	2,455,693	19,146,535	22,125,020

36. Approval of the consolidated financial statements

The consolidated financial statements of Global Bank Corporation and Subsidiaries for the year ended June 30, 2023 were approved by the Board of Directors for issuance on July 31, 2023.

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