FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

Global Bank Corporation and Subsidiaries

Interim consolidated financial statements
as of March 31, 2018

Global Bank Corporation and Subsidiaries

Consolidated Financial Statement as of March 31, 2018

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Complementary information

Global Bank Corporation y Subsidiarias

Consolidated Statement of financial position
March 31, 2018
(In balboas)

	Notes	2018	2017
Assets			
Cash and cash equivalents	7,16	424,609,958	618,963,453
Time deposits with original maturities greater than 90 days	7	2,355,000	2,450,000
Securities purchased under resale agreements	6,8	3,027,049	3,035,968
Securities available for sale	6,9,16	430,018,399	445,341,990
Securities held to maturity	10	316,784,859	233,539,759
Loans	6,11,17 b	4,994,180,208	4,973,777,950
Property, furniture, equipment and improvements	12	153,588,712	131,671,687
Other assets	6,13,28	231,935,920	204,695,342
Total assets		6,556,500,105	6,613,476,149
Liabilities and Shareholders' Equity			
Liabilities			
Client deposits	15	3,421,684,071	3,453,511,995
Bank deposits		89,788,053	113,318,087
Securities sold under repurchase agreements	14	59,560,000	-
Obligations with financial institutions	9, 10, 13,16	707,226,323	599,851,080
Negotiable trade securities	17 a	25,031,000	26,000,000
Corporate bonds	11,17 b	1,288,594,345	1,497,070,841
Subordinated bonds	17 c	17,335,168	17,424,733
Perpetual bonds	17 d	115,142,684	109,069,037
Other liabilities	6,18,19	221,888,416	235,902,489
Total liabilities		5,946,250,060	6,052,148,262
Shareholders' Equity			
Common shares	20	103,220,661	98,202,657
Excess paid-in capital		2,203,687	2,497,604
Capital reserve		36,290,278	38,314,432
Regulatory reserve	32	74,104,871	73,050,194
Retained earnings		394,430,548	349,263,000
Total Shareholders' Equity		610,250,045	561,327,887
Total liabilities and shareholders' equity		6,556,500,105	6,613,476,149

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

Global Bank Corporation y Subsidiarias

Consolidated statement of profit or loss
for the period ended March 31, 2018
(In balboas)

	Notes	2018	2017
Interest income		270,977,758	255,952,007
Interest expense		(160,144,880)	(140,432,557)
Net interest income	21	110,832,878	115,519,450
Earned commissions		35,917,823	42,331,760
Commision expense		(8,841,073)	(7,848,163)
Net commission income	21	27,076,750	34,483,597
Net income from interest and commissions	21	137,909,628	150,003,047
Other income	22	8,247,272	5,087,665
		146,156,900	155,090,712
Other expenses			
Impairment allowance	11	9,095,331	9,800,540
Salaries and wages	6	35,931,393	36,184,588
Professional fees		3,820,185	4,065,120
Depreciation and amortization	12	8,748,113	7,529,531
Amortization of intangible assets	13	188,755	188,349
Marketing and advertising		2,202,206	2,335,613
Maintenance and repairs		7,030,170	6,379,655
Leases	25	3,714,115	3,205,748
Other taxes		3,564,929	3,187,302
Others	23	13,905,191	14,018,070
		88,200,388	86,894,516
Profit before income tax		57,956,512	68,196,196
Income tax:	29		
Current		6,664,998	8,183,542
Deferred		(1,646,980)	(576,257)
Income tax		5,018,018	7,607,285
PROFIT FOR THE PERIOD		52,938,494	60,588,911

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

Global Bank Corporation y Subsidiarias

Consolidated statement of profit or loss and other comprehensive income
for the period ended March 31, 2018
(In balboas)

	Notes	2018	2017
Profit for the period		52,938,494	60,588,911
Other comprehensive income:			
Items which can be later reclassified to profit or loss:			
Net amount transferred to profit or loss	9	1,881,726	1,440,291
Net changes in securities available for sale	9	(7,096,897)	1,298,315
Other comprehensive income for the period		(5,215,171)	2,738,606
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		47,723,323	63,327,517

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

Global Bank Corporation y Subsidiarias

Consolidated statement of changes in equity
for the period ended March 31, 2018
(In balboas)

	Notes	Total	Common shares	Excess paid-in capital	Capital reserve	Regulatory reserve	Retained earnings
Balance as of June 30, 2016		511,870,634	98,202,657	2,131,214	35,575,826	67,394,813	308,566,124
Profit for the period		60,588,911	-	-	-	-	60,588,911
Net changes in securities available for sale		2,738,606	-	-	2,738,606	-	-
Total comprehensive income for the period		63,327,517	-	-	2,738,606	-	60,588,911
Excess paid-in-capital - share option plan for employees	24	366,390	-	366,390	-	-	-
Dividends paid - common shares	20	(12,900,483)	-	-	-	-	(12,900,483)
Complementary tax		(1,336,171)	-	-	-	-	(1,336,171)
Provisión dinámica	32	-	-	-	-	4,877,267	(4,877,267)
Regulatory reserve	32	-	-	-	-	778,114	(778,114)
Balance at March 31, 2017		561,327,887	98,202,657	2,497,604	38,314,432	73,050,194	349,263,000
Balance as of June 30, 2017		576,531,434	98,202,657	2,619,734	41,505,449	73,279,633	360,923,961
Profit for the period		52,938,494	-	-	-	-	52,938,494
Net changes in securities available for sale		(5,215,171)	-	-	(5,215,171)	-	-
Total comprehensive income for the period		47,723,323	-	-	(5,215,171)	-	52,938,494
Excess paid-in-capital - share option plan for employees	24	(416,047)	-	(416,047)	-	-	-
Issuance of common stock		5,018,004	5,018,004	-	-	-	-
Dividends paid - common shares	20	(17,363,031)	-	-	-	-	(17,363,031)
Complementary tax		(1,218,793)	-	-	-	-	(1,218,793)
Regulatory reserve	32	-	-	-	-	825,238	(825,238)
Adjustmennt for inclusion of subsidiary		(24,845)	-	-	-	-	(24,845)
Balance at March 31, 2018		610,274,890	103,220,661	2,203,687	36,290,278	74,104,871	394,430,548

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

Global Bank Corporation y Subsidiarias

Consolidated statement of cash flows
for the period ended March 31, 2018
(In balboas)

	Notes	2018	2017
Cash flows from operating activities			
Profit for the period		52,938,494	60,588,911
Adjustments for:			
Depreciation and amortization	12	8,748,113	7,529,531
Gain on sale of furniture and equipment	12	(13,468)	(3,828)
Gain on sale of securities available for sale	9	(1,881,726)	(1,440,291)
Impairment allowance	11	9,095,331	9,800,540
Income tax	29	5,018,018	7,607,285
Net interest and commission income	11, 21	(279,092,129)	(255,805,188)
Interest expenses	21	160,144,880	140,432,557
Excess paid-in capital - share option plan for employees	24	(416,047)	366,390
Adjustmennt for inclusion of subsidiary		(24,845)	-
		(45,483,379)	(30,924,093)
Changes in:			
Time deposits over 90 days		(1,385,000)	-
Securities purchased under resale agreements	8	8,919	3,030,378
Loans	11	79,280,282	(281,413,595)
Other assets		(1,833,186)	6,529,108
Restricted time deposits	7	(17,781,899)	(19,169,496)
Demand deposits and savings accounts		(27,504,699)	46,219,640
Time deposits		44,960,436	51,630,185
Bank deposits		(81,067,185)	(35,167,444)
Other liabilities		43,929,214	87,441,959
Allowance for seniority premiums		257,564	364,208
Cash used in operations		(6,618,933)	(171,459,150)
Income tax paid		(5,220,362)	(8,501,601)
Interest received		244,511,653	240,782,041
Interest paid		(137,581,943)	(121,128,032)
Plusvalía			
Net cash flow used in operating activities		95,090,415	(60,306,742)
Cash flows from investing activities			
Purchase of securities available for sale	9	(220,004,397)	(226,374,742)
Sale of securities available for sale	9	236,200,249	259,170,494
Purchase of securities held to maturity	10	(34,478,934)	(155,377,024)
Sale and redemption of securities held to maturity	10	1,577,986	5,731,997
Purchase of property, furniture and equipment	12	(24,640,266)	(35,080,165)
Proceeds from sale of furniture and equipment	12	1,157,318	46,957
Net cash flows used in investing activities		(40,188,044)	(151,882,483)
Cash flows from financing activities			
Payments made for transactions related to repurchase agreements	14	29,560,000	-
Proceeds from securities sold under repurchase agreements	14	-	(33,924,966)
Obligations with financial institutions received	16	1,041,909,995	719,785,550
Obligations with financial institutions paid	16	(1,016,478,062)	(774,752,850)
Proceeds from the issuance of negotiable trade securities	17 a	25,031,000	26,000,000
Redemption of egotiable trade securities	17 a	(28,500,000)	(14,414,000)
Proceeds from issuance of corporate bonds	17 b,c	(156,801,162)	430,148,037
Dividends paid - common shares	20	(17,363,031)	(12,900,483)
Proceeds from issuance of common shares		5,018,004	-
Complementary tax		(1,218,793)	(1,336,171)
Net cash flows provided by financing activities		(118,842,049)	338,605,117
Net decrease in cash and cash equivalents		(63,939,678)	126,415,892
Cash and cash equivalents at the beginning of the period		440,347,604	459,641,850
Cash and cash equivalents at the end of the period	7	376,407,926	586,057,742

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

1. General information

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

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

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

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

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

2. Application of International Financial Reporting Standards (IFRSs)

2.1 New IFRSs and interpretations mandatorily applicable for this year

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

2.2 New and revised standards and interpretations issued but are not yet effective

A series of standards and amendments to the new standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in the preparation of these financial statements. With the exception of IFRS 9 - *Financial Instruments: Classification and Measurement*, IFRS 15 - *Revenue from Contracts with Customers* and IFRS 16 - *Leases*, it is expected that none of these will have a significant effect on the consolidated financial statements. However, it is not practical to provide a reasonable estimate of their effect until a detailed review has been completed. Below is a summary of the new standards, amendments to IFRSs or IFRIC interpretations issued but not yet effective.

FRS 9 - Financial Instruments: Classification and Measurement

IFRS 9 issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to include requirements for classification and measurement of financial liabilities and derecognition, and in November 2013, included new requirements for general hedge accounting. In July 2014, another revised version of IFRS 9 was issued mainly to include: a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a measurement category at "fair value with changes in other comprehensive income" (FVTOCI) for certain simple debtor instruments.

Key requirements of IFRS 9:

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

- With regard to the measurement of financial liabilities that are designated at fair value through profit and loss, IFRS 9 requires that the amount of the change in the fair value of the financial liability attributable to changes in credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income creates or increases an accounting disparity in profit or loss. Changes in fair value attributable to credit risk of financial liabilities are not subsequently reclassified to profit or loss. Under IAS 39, the total amount of the change in fair value of financial liabilities designated at fair value with change in results was recognized in profit or loss.

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

- The new general requirements for hedge accounting hold the three types of hedge accounting mechanisms that are currently available in IAS 39. In accordance with IFRS 9, ideal types of transactions for hedge accounting are much more flexible, specifically when expanding the types of instruments that are classified as hedging instruments and types of risk components of non-financial items ideal for hedge accounting. In addition, the effectiveness test by the principle of “economic relationship” has been revised and replaced. It no longer requires a retrospective evaluation to measure the hedge effectiveness. Enhanced disclosure requirements were also added on risk management activities of an entity.

The effective date for the application of IFRS 9 is for annual periods beginning on or after January 1, 2018. However, this standard may be adopted early.

<u>IFRS 15 - Revenue from Contracts with Customers</u>

In May 2014, IFRS 15 was issued, which provides an extensive and detailed model to be used by entities in accounting for revenue from contracts with customers. IFRS 15 will replace the current revenue recognition guideline, including IAS 18 – *Revenue*, IAS 11 - *Construction Contracts* and related interpretations on the date it comes into force.

The fundamental principle of IFRS 15 is that an entity should recognize revenue to represent the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to receive in exchange for goods or services. Specifically, the rule adds a 5-step model to account for revenue:

- Step 1: Identify the contract with customers.
- Step 2: Identify performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Distribute the transaction price to performance obligations in the contract.
- Step 5: Recognize revenue when (or whenever) the entity meets the requirement.

Under IFRS 15, an entity accounts for an income when (or whenever) an obligation of performance is satisfied, that is, when the “control” of goods and services based on an obligation of individual performance is transferred to the customer. Many more prescriptive guidance have been added in IFRS 15 to deal with specific situations. In addition, IFRS 15 requires extensive disclosures.

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

IFRS 16 - Leases

IFRS 16 - Leases replaces IAS 17. This standard eliminates the classification of leases, and establishes that it must be recognized in a similar way to financial leases and measured at the present value of future lease payments. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

IAS 7 – Disclosure Initiative

The amendments require that an entity provide disclosures that will allow the users of the consolidated financial statements to assess changes in liabilities arising from financing activities, as well as changes in cash and those unrelated to cash.

Effective for annual periods beginning on or after January 1, 2017.

Amendments to IAS 12 – Recognition of deferred tax assets for unrealized losses

The amendments clarify how an entity should evaluate whether there are sufficient future taxable profit which it can use a deductible temporary difference.

Effective for annual periods beginning on or after January 1, 2017.

Amendments to IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation establishes how to determine the accounting tax position when there is uncertainty over income tax treatments.

The interpretation requires that the entity:

a. Determine whether the uncertain tax positions are valued separately or as a group; and
b. Values if it is probable that the tax authority will accept the usage, or proposed usage, of an uncertain tax treatment, by an entity in its income tax returns:
    - If yes, the entity must determine its accounting tax position consistent with the tax treatment used or planned to be used in its income tax returns.
    - If no, the entity must reflect the effect of the uncertainty in determining its accounting tax position.

Effective for annual periods beginning on or after January 1, 2019.

Amendments to IFRS 2 – Classification and measurement of share-based payment transactions

The amendments refer to the following areas:

a. Accounting for the effects that the conditions of the consolidation of the concession have on share-based payment transactions settled in cash;
b. Classification of share-based payment transactions with net settlement characteristics for tax withholding obligations; and
c. Accounting for the modification of terms and conditions of share-based payments, which change the transactions from settled-in-cash to settled-in-equity.

The amendments are effective for annual reporting periods beginning on or after January 1, 2018 with early application allowed. Specific transition provisions apply.

IFRS 17 – Insurance Contracts

- The new standard establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 – *Insurance Contracts*.

- The new standard outlines a General Model, which is modified for insurance contracts with discrete participation characteristics, described as the variable fee approach. The General Model is simplified if certain criteria is met, by measuring the liability for the remaining coverage using the premium allocation approach.

- The General Model will use current assumptions to estimate the quantity, opportunity and uncertainty of future cash flows and explicitly measure the cost of this uncertainty; it will take into account the market interest rates and the impact of the policyholders' options and guarantees.

- Profit from the sale of insurance policies is deferred as a separate liability on day 1 and aggregated in groups of insurance contracts; afterwards, it is then reported systematically through profit of loss during the period in which the insurers provide coverage after making adjustments derived from changes in the assumptions related to future coverage.

- The standard is effective for annual periods beginning on or after January 1, 2021 with early application allowed. It applies retrospectively unless it is unfeasible, in which case the modified retrospective approach or the fair value approach is applied.

Effective for annual period beginning on or after January 1, 2021.

3. Most significant accounting policies

3.1 Statement of compliance

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

3.2 Basis for presentation

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

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

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

3.3 Basis of consolidation

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

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

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

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

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

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

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

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

Changes in the Banks' ownership interests in existing subsidiaries

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

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

3.4 Foreign currency transactions

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

Functional currency and presentation

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

3.5 Segment reporting

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

3.6 Financial assets

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

Securities purchased under resale agreements

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

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

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

Securities available-for-sale

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

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

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

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

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

Securities held to maturity

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

Loans

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

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

Financial leasing

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

Derecognition of financial assets

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

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

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

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

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

3.7 Financial liabilities and issued equity instruments

Client deposits

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

Classification as debt or equity

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

Equity instruments

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

Liabilities from financial guarantee contracts

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

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

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

Financing

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

Securities sold under repurchase agreements

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

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Dividends

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

3.8 Compensation of financial instruments

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

3.9 Interest income and expenses

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

3.10 Commission income

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

3.11 Impairment of financial statements

Loans

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

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

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

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

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

Individually assessed loans

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

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

Loans collectively assessed

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

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

Reversal of impairment

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

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

Restructured loans

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

Securities classified as available for sale

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

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

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

3.12 Securities purchased under resale agreements

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

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

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

3.13 Financial leasings receivable

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

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

3.14 Operating leases

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

3.15 Property, furniture, equipment and improvements

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

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

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

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

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

3.16 Foreclosed assets for sale

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

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

3.17 Goodwill and intangible assets

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

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

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

3.18 Impairment of non-financial assets other than goodwill

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

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

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

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

As of March 31, 2018, Management had not identified impairment loss of its non-financial assets.

3.19 Employee benefits

Severance fund

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

Retirement plan

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

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

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

3.20 Share-based payments

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

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

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

3.21 Income tax

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

Deferred tax

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

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

Complementary dividend tax

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

3.22 Insurance operations

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

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

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

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

3.23 Trust operations

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

3.24 Embedded derivatives

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

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

3.25 Hedge derivatives

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

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

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

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

Fair value hedge

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

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

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

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

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

3.26 Cash equivalents

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

4. Financial risk management

4.1 Objectives of financial risk management

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

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

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

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

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

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

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

4.2 Credit and counterparty risk

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

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

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

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

Issue of Credit Policies:

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

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

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

Establishment of Authorization Limits:

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

Exposure Limits:

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

Concentration Limits:

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

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

Counterparty Maximum Limits:

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

Review of Compliance Policies:

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

Review of guarantees:

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

Impairment and provisioning policies:

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

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements
for the nine months ended March 31, 2018
(In balboas)

Credit quality analysis

1. Table of the credit quality of financial assets and provision for impairment

	2018	2017
Deposits in banks		
Grade 1: Normal	394,674,240	585,433,480
Loans		
Grade 1: Normal	4,772,979,183	4,870,627,589
Grade 2: Special mention	170,004,147	89,528,185
Grade 3: Subnormal	27,294,313	12,461,641
Grade 4: Doubtful	19,973,183	30,982,564
Grade 5: Uncollectible	65,016,034	30,136,596
Gross amount	5,055,266,860	5,033,736,575
Provision for individual and collective impairment	(49,977,317)	(40,787,225)
Unearned discounted interest	(11,109,335)	(19,171,400)
Carrying amount, net	4,994,180,208	4,973,777,950
In arrears but not impaired		
31 to 60 days	52,601,207	26,393,025
Sub-total	52,601,207	26,393,025
Individually impaired loans		
Grade 2: Special mention	170,004,147	89,528,185
Grade 3: Subnormal	27,294,313	12,461,641
Grade 4: Doubtful	19,973,183	30,982,564
Grade 5: Uncollectible	65,016,034	30,136,596
Sub-total	282,287,677	163,108,986
Provision for impairment of loans		
Individual	(47,378,748)	(30,439,160)
Collective	(2,598,569)	(10,348,065)
Total provision for impairment	(49,977,317)	(40,787,225)
Off balance operations		
Grade 1: Normal		
Letters of credit	63,195,994	105,044,360
Endorsements and guarantees	414,047,193	547,790,886
Promissory notes	311,894,287	386,877,251
Credit lines granted but not used	180,802,623	242,640,014
	969,940,097	1,282,352,511
Securities purchased under resale agreements		
Grade 1: Normal	3,027,049	3,035,968
Securities of investments availale for sale		
Grade 1: Normal	430,018,399	445,341,990
Securities held to maturity		
Grade 1: Normal	316,784,859	233,539,759

Below is the aging of the overdue loan portfolio:

	2018		
	Global Bank Corporation	Subsidiaries	Total
Current	4,707,631,947	170,278,185	4,877,910,132
from 31 to 90 days	83,051,749	-	83,051,749
Over 90 days (capital or interest)	75,773,199	-	75,773,199
Over 30 days past due (maturity capital)	18,531,780	-	18,531,780
Total	4,884,988,675	170,278,185	5,055,266,860

	2017		
	Global Bank Corporation	Subsidiaries	Total
Current	4,708,149,844	215,730,470	4,923,880,314
From 31 to 90 days	39,833,725	-	39,833,725
Over 90 days (capital or interest)	49,097,535	-	49,097,535
Over 30 days past due (maturity capital)	20,925,001	-	20,925,001
Total	4,818,006,105	215,730,470	5,033,736,575

2. Analysis by type of loan portfolio

2018	Consumer				Corporate		
	Individuals	Credit cards	Vehicles	Mortage	Commercial	Overdrafts	Total loans
Individual impairment:							
Special mention	13,144,675	4,292,084	3,517,014	40,371,957	108,515,590	162,827	170,004,147
Subnormal	1,422,085	1,910,412	893,056	7,633,455	14,730,077	705,228	27,294,313
Doubtful	1,358,315	1,433,347	476,017	8,244,933	8,348,963	111,608	19,973,183
Uncollectible	9,705,626	4,977,097	2,396,984	6,866,363	40,369,314	700,650	65,016,034
Gross amount	25,630,701	12,612,940	7,283,071	63,116,708	171,963,944	1,680,313	282,287,677
Impairment allowance	(9,151,237)	(7,919,416)	(1,497,204)	(3,377,182)	(24,311,815)	(1,121,894)	(47,378,748)
Carrying value	16,479,464	4,693,524	5,785,867	59,739,526	147,652,129	558,419	234,908,929
Not deliquent without impairment / carrying value	497,875,577	83,804,087	263,346,578	1,055,660,899	2,712,519,936	159,772,106	4,772,979,183
	514,355,041	88,497,611	269,132,445	1,115,400,425	2,860,172,065	160,330,525	5,007,888,112
Less:							
Provision for collective impairment							(2,598,569)
Unearned interest and commissions							(11,109,335)
Total carrying amount							4,994,180,208
Guarantees	230,644,378	4,053,946	392,488,044	1,523,183,346	4,900,757,657	195,858,520	7,246,985,891
Renegotiations:							
Gross amount	5,767,963	-	39,427	20,320,109	56,303,605	-	82,431,104
Impairment allowance	(259,339)	-	(5,693)	(117,628)	(6,398,313)	-	(6,780,973)
Net amount	5,508,624	-	33,734	20,202,481	49,905,292	-	75,650,131

2017	Consumer				Corporate		
	Individuals	Credit cards	Vehicles	Mortage	Commercial	Overdrafts	Total loans
Individual impairment:							
Special mention	9,989,436	2,748,930	1,247,858	24,272,238	41,956,568	9,313,155	89,528,185
Subnormal	1,397,938	1,187,402	214,802	5,810,779	3,113,219	737,501	12,461,641
Doubtful	1,282,132	872,861	114,096	1,980,181	26,697,119	36,175	30,982,564
Uncollectible	6,543,728	3,015,878	1,307,190	3,403,420	14,728,575	1,137,805	30,136,596
Gross amount	19,213,234	7,825,071	2,883,946	35,466,618	86,495,481	11,224,636	163,108,986
Individual impairment allowance	(8,209,194)	(4,854,978)	(776,930)	(1,818,136)	(13,297,977)	(1,481,945)	(30,439,160)
Carrying value	11,004,040	2,970,093	2,107,016	33,648,482	73,197,504	9,742,691	132,669,826
Not delinquent without impairment / carrying value	480,406,861	76,574,288	262,778,998	954,228,437	2,954,162,817	142,476,188	4,870,627,589
	491,410,901	79,544,381	264,886,014	987,876,919	3,027,360,321	152,218,879	5,003,297,415
Less:							
Collective impairment allowance							(10,348,065)
Unearned interest and commissions							(19,171,400)
Total carrying amount							4,973,777,950
Guarantees	204,442,549	3,988,319	570,320,062	1,357,071,829	4,779,524,982	195,651,399	7,110,999,140
Renegotiations							
Gross amount	5,606,966	-	64,541	14,668,445	28,889,242	-	49,229,194
Impairment allowance	(370,719)	-	(9,758)	(65,283)	(2,630,635)	-	(3,076,395)
Net amount	5,236,247	-	54,783	14,603,162	26,258,607	-	46,152,799

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

	2018	2017
Current	4,877,910,132	4,923,880,314
Delinquent	83,051,749	39,833,725
Overdue	94,304,979	70,022,536
Total	5,055,266,860	5,033,736,575

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

- *Impairment of loans and investments* – The Bank considers that loans and investments are impaired in the following circumstances:
  - There is objective evidence that a loss event has occurred since the initial recognition and the loss event has an impact on the estimated future cash flows of the asset when the consumer loans are past due at 90 days or more.
  - Loans that have been renegotiated due to deterioration in debt status are usually considered as impaired unless there is evidence that the risk of not receiving contractual cash flow has been significantly reduced and there is no other indicator of impairment.
  - Loans that are subject to collective provision for unreported losses incurred are not considered to be impaired.
  - Impaired debt loans and investments are classified in Grade 2 to 5 in the Bank's internal credit risk rating system.

- *Delinquent loans but not impaired* - Corresponds to those loans where contractually the payment of principal or interest is delayed, but which the Bank considers are not impaired based on the level of guarantees available to cover the balance of the loan.

- *Restructured loans* - Renegotiated loans are those to which a restructuring has been carried out due to impairment in the financial conditions of the debtor, and where the Bank considers granting a change in credit parameters. These loans once restructured are kept in this category, regardless if the debtor presents any improvement in its condition following the restructuring by the Bank.

- *Overdue loans* - Loans are classified as overdue when there is a delay in paying the operation over 90 days. In the case of operations of a single payment at maturity and overdrafts, the operation is classified as overdue with delays over 30 days.

- *Reserves for impairment* - Have been established for impairment in accordance with International Financial Reporting Standards (IFRS), which represent an estimate of incurred losses in the loan portfolio. The main components of this allowance are related to individual risks and reserves for loan losses established collectively. The reserve for investments with constant deterioration recorded at amortized cost is calculated individually based on its fair value and according to the investment policies and other financial assets and credit risk of the Bank. In the case of instruments at fair or available for sale value, the estimated loss is calculated individually based on their market value and/or an individual analysis of the investment and other financial assets based on their estimated cash flows.

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

3. Investment portfolio

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

2018	**Securities available for sale**	**Securities held to maturity**	**Securities purchased under resale agreement**	**Total**
With investment grade	80,583,808	272,265,746	-	352,849,554
Standard monitoring	114,153,603	44,519,113	-	158,672,716
Without grade	235,280,988	-	3,027,049	238,308,037
Total	430,018,399	316,784,859	3,027,049	749,830,307

2017	**Securities available for sale**	**Securities held to maturity**	**Securities purchased under resale agreement**	**Total**
With investment grade	87,580,129	208,693,537	-	296,273,666
Standard monitoring	115,540,338	24,846,222	-	140,386,560
Without grade	242,221,523	-	3,035,968	245,257,491
Total	445,341,990	233,539,759	3,035,968	681,917,717

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

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

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

4. Guarantees to reduce credit risk and its financial impact

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

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

	Consumer				Corporate		
2018	**Personal**	**Credit cards**	**Vehicles**	**Mortgage**	**Commercial**	**Overdraft**	**Total loans**
Loan balance	523,506,278	96,417,027	270,629,649	1,118,777,607	2,884,483,879	161,452,420	5,055,266,860
Guarantees	230,644,378	4,053,946	392,488,044	1,523,183,346	4,900,757,657	195,858,520	7,246,985,891
Exposure % subject to guarantee requirements	44%	4%	145%	136%	170%	121%	143%

	Consumer				Corporate		
2017	**Personal**	**Credit cards**	**Vehicles**	**Mortgage**	**Commercial**	**Overdraft**	**Total loans**
Loan balance	499,620,096	84,399,360	265,662,944	989,695,055	3,040,658,297	153,700,823	5,033,736,575
Guarantees	204,442,549	3,988,319	570,320,062	1,357,071,829	4,779,524,982	195,651,399	7,110,999,140
Exposure % subject to guarantee requirements	41%	5%	215%	137%	157%	127%	141%

Residential mortgage loans

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

	2018	**2017**
Residential mortgage loans:		
Less than 50%	68,124,786	63,247,157
51% - 70%	198,649,654	176,363,208
71% - 90%	549,379,424	506,562,052
More than 90%	302,623,743	243,522,638
Total	1,118,777,607	989,695,055

Time deposits placed in banks

As of March 31, 2018, the Bank held time deposits in Banks for B/.262,400,734 (2017: B/.362,155,400). Time deposits in banks are kept in local and foreign financial institutions. These institutions have local and/or international ratings, mostly with an international investment grade of at least BBB- by Fitch Ratings or Standard and Poors, or Baa3 by Moodys.

Credit risk concentration

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

	2018		
	Deposits in banks	Loans	Investments
Concentration by sector:			
Corporate	345,273,628	3,033,405,804	-
Consumer	-	2,016,305,871	-
Government	49,400,612	-	150,506,204
Other sectors	-	5,555,185	599,324,103
	394,674,240	5,055,266,860	749,830,307
Geographical concentration:			
Panama	145,197,711	4,817,254,372	328,668,707
Latin America and Caribbean	15,019,886	216,706,830	332,378,139
Europe, Asia and Oceania	57,115,873	21,305,658	42,650,482
United States of America and others	177,340,770	-	46,132,979
	394,674,240	5,055,266,860	749,830,307

	2017		
	Deposits in banks	Loans	Investments
Concentration by sector:			
Corporate	503,418,566	3,182,654,451	-
Consumer	-	1,846,691,314	-
Government	82,014,914	-	124,848,207
Other sectors	-	4,390,810	557,069,510
	585,433,480	5,033,736,575	681,917,717
Geographical concentration:			
Panama	241,716,062	4,762,669,845	303,709,368
Latin America and Caribbean	35,058,855	241,879,651	297,467,268
Europe, Asia and Oceania	100,833,762	28,337,079	43,038,905
United States of America and others	207,824,801	850,000	37,702,176
	585,433,480	5,033,736,575	681,917,717

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

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

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

2018	Carrying amount	Provisions	Net amount
Normal	4,772,979,183	-	4,772,979,183
Special mention	170,004,147	8,966,154	161,037,993
Sub normal	27,294,313	6,682,331	20,611,982
Doubtful	19,973,183	5,938,314	14,034,869
Uncollectible	65,016,034	25,791,949	39,224,085
	5,055,266,860	47,378,748	5,007,888,112
Less:			
Provision for collective impairment	-	2,598,569	(2,598,569)
	5,055,266,860	49,977,317	5,005,289,543
Less: unearned interest and commissions			(11,109,335)
Total			4,994,180,208

2017	Carrying amount	Provisions	Net amount
Normal	4,870,627,589	-	4,870,627,589
Special mention	89,528,185	4,106,570	85,421,615
Sub normal	12,461,641	2,910,571	9,551,070
Doubtful	30,982,564	7,265,231	23,717,333
Uncollectible	30,136,596	16,156,788	13,979,808
	5,033,736,575	30,439,160	5,003,297,415
Less:			
Provision for collective impairment	-	10,348,065	(10,348,065)
	5,033,736,575	40,787,225	4,992,949,350
Less: unearned interest and commissions			(19,171,400)
Total			4,973,777,950

4.3 Liquidity risk or financing

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

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

Panamanian Banking Regulations require banks with a general license to keep at all times a minimum balance of liquid assets, as defined in Agreement 4-2008 of the Superintendency of Banks of Panama, of no less than 30% of their deposits. However, due to the severe liquidity policies for covering their operating liabilities, the liquidity of the Bank based on this standard as of March 31, 2018, was 53.05% (2017: 47.64%).

The liquidity risk caused by 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 index corresponding to the margin of the net liquid assets on deposits received from the Bank's clients at the date of the consolidated financial statements as follows:

	2018	**2017**
At March 31	**53.05%**	**47.64%**
Average for the period	48.43%	40.52%
Maximum for the period	61.47%	56.13%
Minimum for the period	42.00%	34.26%

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

2018	**Carrying value**	**Undiscounted cash flows**	**Up to 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**More than 5 years**
Deposits	3,511,472,124	3,529,239,177	2,128,622,397	792,263,413	501,473,755	106,879,612
Repurchase agreements	59,560,000	60,047,847	60,047,847	-	-	-
Obligations with financial institutions	707,226,323	752,700,595	441,843,916	259,680,039	21,880,376	29,296,264
Negotiable trade securities	25,031,000	25,324,770	25,324,770	-	-	-
Corporate bonds payable	1,288,594,345	1,459,327,989	146,089,160	607,419,030	705,819,799	-
Subordinated bonds	17,335,168	79,273,933	1,174,751	2,349,502	2,349,502	73,400,178
Perpetual bonds	115,142,684	180,238,829	7,797,944	15,595,887	15,595,887	141,249,111
	5,724,361,644	6,086,153,140	2,810,900,785	1,677,307,871	1,247,119,319	350,825,165

2017	**Carrying value**	**Undiscounted cash flows**	**Up to 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**More than 5 years**
Deposits	3,566,830,082	3,582,047,107	2,242,891,963	648,895,497	499,013,528	191,246,119
Obligations with financial institutions	599,851,080	625,456,037	408,303,260	182,759,555	26,729,544	7,663,678
Negotiable trade securities	26,000,000	26,442,917	26,442,917	-	-	-
Corporate bonds payable	1,497,070,841	1,726,611,765	206,636,700	774,470,758	745,504,307	-
Subordinated bonds	17,424,733	80,606,100	1,181,362	2,362,725	2,362,725	74,699,288
Perpetual bonds	109,069,037	506,513,474	7,423,457	14,846,914	14,846,914	469,396,189
	5,816,245,773	6,547,677,400	2,892,879,659	1,623,335,449	1,288,457,018	743,005,274

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 enable the nature and extent of liquidity risk.

4.4 Market risk

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

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

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

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

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

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

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

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

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

2018	Up to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	No interest rate	Total
Financial assets:						
Cash and deposits	260,795,733	1,250,000	355,000	-	164,564,225	426,964,958
Securities purchased under resale agreement	2,027,041	1,000,008	-	-	-	3,027,049
Securities available for sale	104,097,690	9,305,026	175,020,128	131,718,653	9,876,902	430,018,399
Securities held to maturity	-	-	30,006,746	286,778,113	-	316,784,859
Loans	4,046,242,640	13,565,842	110,806,666	884,651,712	-	5,055,266,860
Total financial assets	4,413,163,104	25,120,876	316,188,540	1,303,148,478	174,441,127	6,232,062,125
Financial liabilities:						
Client deposits	1,462,294,785	459,204,527	1,178,602,433	12,476,117	398,894,262	3,511,472,124
Repurchase agreements	59,560,000	-	-	-	-	59,560,000
Obligations with financial institutions	707,226,323	-	-	-	-	707,226,323
Negotiable commercial securities	23,471,000	1,560,000	-	-	-	25,031,000
Corporate bonds	1,288,594,345	-	-	-	-	1,288,594,345
Subordinated bonds	-	-	-	17,335,168	-	17,335,168
Perpetual bonds	-	-	-	115,142,684	-	115,142,684
Total financial liabilities	3,541,146,453	460,764,527	1,178,602,433	144,953,969	398,894,262	5,724,361,644
Commitments and contingencies	-	-	-	-	969,940,097	969,940,097
Total interest rate sensitivity	872,016,651	(435,643,651)	(862,413,893)	1,158,194,509	(224,453,135)	507,700,481

2017	Up to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	No interest rate	Total
Financial assets:						
Cash and deposits	361,655,403	500,000	-	-	259,258,050	621,413,453
Securities purchased under resale agreement	2,035,965	1,000,003	-	-	-	3,035,968
Securities available for sale	74,884,731	2,950,000	150,137,501	209,816,668	7,553,090	445,341,990
Securities held to maturity	-	-	-	233,539,759	-	233,539,759
Loans	4,084,819,941	25,627,204	118,364,279	804,925,151	-	5,033,736,575
Total financial assets	4,523,396,040	30,077,207	268,501,780	1,248,281,578	266,811,140	6,337,067,745
Financial liabilities:						
Client deposits	1,525,806,293	422,728,836	1,106,932,460	21,776,391	489,586,102	3,566,830,082
Repurchase agreements	-	-	-	-	-	-
Obligations with financial institutions	499,122,690	100,728,390	-	-	-	599,851,080
Negotiable commercial securities	21,000,000	5,000,000	-	-	-	26,000,000
Corporate bonds	1,391,381,837	45,689,004	60,000,000	-	-	1,497,070,841
Subordinated bonds	-	-	-	17,424,733	-	17,424,733
Perpetual bonds	-	-	-	109,069,037	-	109,069,037
Total financial liabilities	3,437,310,820	574,146,230	1,166,932,460	148,270,161	489,586,102	5,816,245,773
Commitments and contingencies	-	-	-	-	1,282,352,511	1,282,352,511
Total interest rate sensitivity	1,086,085,220	(544,069,023)	(898,430,680)	1,100,011,417	(222,774,962)	520,821,972

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

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

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

2018	**Increase 100bps**	**Decrease 100bps**
Investment securities	(36,006,526)	38,674,182
Loans	(13,284,877)	14,241,613
Time deposits	33,866,412	(35,013,111)
Obligations with financial institutions	7,433,959	(7,680,833)
Negotiable trade securities	60,179	(60,461)
Corporate bonds	112,668	(114,068)
Subordinated bonds	5,541,610	(6,320,081)
Net impact	(2,276,575)	3,727,241

2017	**Increase 100bps**	**Decrease 100bps**
Investment securities	(35,635,134)	38,439,044
Loans	(12,715,622)	13,631,936
Time deposits	33,856,863	(35,102,914)
Obligations with financial institutions	3,812,044	(3,907,024)
Negotiable trade securities	134,103	(135,078)
Corporate bonds	1,513,888	(1,539,841)
Subordinated bonds	6,189,112	(7,034,807)
Net impact	(2,844,746)	4,351,316

4.5 Operating Risk

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

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

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

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

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

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

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

The Bank manages its capital to ensure:

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

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

The Bank's management, based on guidelines and techniques developed by the Superintendency of Bank of Panama, monitors capital adequacy and the use of regulatory capital. Information requirements are sent to the regulator on a quarterly basis.

As of March 31, 2018 and 2017, 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 Feburary 3, 2015 and Agreement 3-2016 of March 22, 2016, which modified Agreement 5-2008 of October 1, 2008 that established the standards to determine the weighted assets by credit risk and counterparty risk.

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

Conforme lo establece el esquema regulatorio, los requerimientos de capital son medidos de la siguiente forma:

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

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

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

- *Secondary capital* - Includes hybrid capital and debt instruments, subordinated debt, general allowances for losses, undeclared reserves and asset revaluation reserves. The general reserves for losses are those provisions that are created voluntarily by the Bank's Management, with the purpose of covering losses that have not yet been identified; specific undeclared reserves are those appropriated from profit after tax and are available to cover future unanticipated losses and do not have any liens or encumbrances. Revaluation reserves of assets are comprised as the result of any revaluation performed on the Bank's assets. As of March 31, 2018 and 2017, the Bank does not hold any reserves from revaluation of assets.

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

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

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

With the adoption of the new agreements, Agreement 1-2015 of February 3, 2015 and Agreement 3-2016 of March 22, 2016, the Bank maintains a regulatory capital position composed, as of March 31, 2018 and 2017, as follows:

	2018	2017
Primary capital (Tier 1)		
Paid share capital	103,220,661	98,202,657
Capital paid in excess	2,203,687	2,497,604
Declared reserves	39,141,588	38,086,911
Retained earnings	394,430,548	349,263,000
Other items of the comprehensive income	3,965,598	5,989,752
Dynamic reserve	67,282,999	67,282,999
Sub total	610,245,081	561,322,923
Less: Regulatory adjustments to the calculation of the ordinary primary capital		
Trade funds	(16,762,687)	(16,762,687)
Other intangible assets	(9,034,680)	(9,288,337)
Total primary capital fund	584,447,714	535,271,899
Perpetual bonds	115,142,684	109,069,037
Total additional primary capital fund	115,142,684	109,069,037
Subordinate debt	17,335,168	17,424,733
Total secondary capital fund	17,335,168	17,424,733
Total capital fund	716,925,566	661,765,669
Weighted asset based on risk		
Total risk weighted assets	4,818,280,475	4,893,879,842
Capital indexes		
Total regulatory capital expressed in percentage on weighted asset based on risk	14.88%	13.52%
Total Tier 1 expressed in percentage of weighted asset based on risk	14.52%	13.17%

5. Accounting estimates, critical judgments and contingencies

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

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

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

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

When the Bank uses or contracts third parties as price vendors 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 price vendors have been approved by the Bank;
- Obtain an understanding of how the fair value was determined and if it reflects current market transactions.

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

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

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

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

Fair value of the Bank´s financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank´s financial assets and financial liabilities 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 inputs	Significant unobservable input(s)	Ratio of unobservable input data at fair value
	2018	2017				
Shares issued by companies - domestic	999,074	1,755,824	Level 2	Observable market prices in non-active markets.	N/A	N/A
Shares issued by companies - domestic	158,433	140,745	Level 3	Bond prices in the non-liquid market.	Calibration prices and date of calibration.	If the non-observable data increases, the fair value of the instrument will be lesser.
Shares issued by companies - foreign	1,214,724	814,074	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt titless - domestic	4,971,250	-	Level 1	Observable market prices in non-active markets.	N/A	N/A
Private debt titless - domestic	124,840,669	103,496,165	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt titless - domestic	100,229,188	132,573,886	Level 3	Bond prices in the non-liquid market.	Calibration prices and date of calibration.	If the non-observable data increases, the fair value of the instrument will be less.
Private debt titles - foreign	142,569,860	155,125,438	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt titles - foreign	19,756,652	19,445,831	Level 2	Neutral valuation to risk. Discount curves are created based on Libor and the default probabilities for underlying risks are calibrated to CDS quotes.	N/A	N/A
Government debt titles - domestic	5,543,921	5,733,797	Level 1	Observable market prices in active markets.	N/A	N/A
Government debt titles - domestic	14,632,260	14,643,138	Level 2	Observable market prices in non-active markets.	N/A	N/A
Government debt titles - foreign	-	5,807,400	Level 1	Observable market prices in active markets.	N/A	N/A
Shares issued by domestic companies not quoted in the stock exchange	5,354,570	2,649,463	Level 3	Value per share, adjusted by fair value of the issuer's properties.	Growth in assets, liabilities, equity and profit from the issuer.	If growth increases, the price increases and vice-versa.
Investment funds	1,960,000	1,860,000	Level 2	Observable market prices in non-active markets.	N/A	N/A
Interest rate swaps – valor razonable	(43,121,206)	(13,432,357)	Level 2	Present value. The valuation of a swap on interest rates is achieved adding the present value of all expected swap flows and later applying a credit adjustment.crédito.	N/A	N/A
Interest rate swaps and exchange rate - Fair value	(4,299,111)	(8,254,566)	Level 2	Present value. The valuation of a swap on interest rates is achieved adding the present value of all expected swap flows and later applying a credit adjustment.crédito.	N/A	N/A
Bonds payable	1,292,390,650	1,264,922,110	Level 2	The fair value is determined depending on the contracted hedge instrument.	N/A	N/A
Time deposits - domestic	199,084,651	202,888,387	Level 2	The fair value is determined depending on the contracted hedge instrument.	N/A	N/A
Totals	1,866,285,585	1,890,169,335				

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

	2018	
	Available for sale	
	Equity effect	
	Favorable	(Unfavorable)
Fixed income instruments	4,990,670	(4,674,513)

	2017	
	Availale for sale	
	Equity effect	
	Favorable	(Unfavorable)
Fixed income instruments	7,646,336	(7,116,876)

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)

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

	2018		2017	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and due from banks	164,564,224	164,564,224	259,258,053	259,258,053
Time deposits	262,400,734	262,400,734	362,155,400	362,155,400
Securities purchased under resale agreements	3,027,049	3,027,049	3,035,968	3,035,968
Loans	4,994,180,208	5,012,253,514	4,973,777,950	4,984,559,399
Total financial liabilities	5,424,172,215	5,442,245,521	5,598,227,371	5,609,008,820
Liabilities				
Demand deposits	398,894,262	398,894,262	489,586,102	489,586,102
Saving deposits	636,824,898	636,824,898	633,678,758	633,678,758
Time deposits	2,475,752,964	2,521,376,561	2,443,565,222	2,484,083,363
Securities sold under repurchase agreements	59,560,000	59,560,000	-	-
Obligations with financial institutions	707,226,323	716,384,129	599,851,080	603,075,186
Negotiable trade securities	25,031,000	25,168,799	26,000,000	26,018,914
Corporate bonds	10,000,000	10,000,000	115,689,004	115,700,000
Subordinated bonds	17,335,168	17,333,980	17,424,733	17,523,000
Perpetual bonds	115,142,684	116,210,000	109,069,037	109,368,670
Total financial liabilities	4,445,767,299	4,501,752,629	4,434,863,936	4,479,033,993

	Total	Fair value hierarchy 2018 Level 1	Level 2	Level 3
Assets				
Cash and due from banks	164,564,224	-	164,564,224	-
Time deposits	262,400,734	-	262,400,734	-
Securities purchased under resale agreements	3,027,049	-	3,027,049	-
Loans	5,012,253,514	-	-	5,012,253,514
Total financial liabilities	5,442,245,521	-	429,992,007	5,012,253,514
Liabilities				
Demand deposits	398,894,262	-	398,894,262	-
Saving deposits	636,824,898	-	636,824,898	-
Time deposits	2,521,376,561	-	2,521,376,561	-
Securities sold under repurchase agreements	59,560,000	-	59,560,000	-
Obligations with financial institutions	716,384,129	-	716,384,129	-
Negotiable trade securities	25,168,799	-	25,168,799	-
Corporate bonds	10,000,000	-	-	10,000,000
Subordinated bonds	17,333,980	-	14,501,980	2,832,000
Perpetual bonds	116,210,000	-	116,210,000	-
Total financial liabilities	4,501,752,629	-	4,488,920,629	12,832,000

	Total	Fair value hierarchy 2017 Level 1	Level 2	Level 3
Assets				
Cash and due from banks	259,258,053	-	259,258,053	-
Time deposits	362,155,400	-	362,155,400	-
Securities purchased under resale agreements	3,035,968	-	3,035,968	-
Loans	4,984,559,399	-	-	4,984,559,399
Total financial assets	5,609,008,820	-	624,449,421	4,984,559,399
Liabilities				
Demand deposits	489,586,102	-	489,586,102	-
Savings deposits	633,678,758	-	633,678,758	-
Time deposits	2,484,083,363	-	2,484,083,363	-
Obligations with financial institutions	603,075,186	-	603,075,186	-
Negotiable trade securities	26,018,914	-	26,018,914	-
Corporate bonds	115,700,000	-	73,700,000	42,000,000
Subordinate bonds	17,523,000	-	7,541,000	9,982,000
Perpetual bonds	109,368,670	-	109,368,670	-
Total financial liabilities	4,479,033,993	-	4,427,051,993	51,982,000

The fair values of the financial assets and liabilities included in the Level 2 and Level 3 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 customer 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 available-for-sale investments for Level 3 sale is as follows:

	2018	**2017**
Balance at beginning of the period	121,756,663	114,070,386
Additions	1,220,676	25,500,000
Reclassifications from Level 2 to 3	42,471,250	47,316,470
Reclassifications from Level 3 to 2	(55,896,641)	(10,000,000)
Net changes in securities	(894,132)	(1,207,343)
Redemptions	(1,814,887)	(39,019,190)
Balance at the end of the period	106,842,929	136,660,323

As of March 31, 2018, securities available for sale in Level 3 for B/.1,100,738 (2017: B/.1,296,229), have been recorded at their acquisition cost. On the other hand, other investments in Level 3 for B/.105,742,191 (2017: B/.135,364,094), are recorded at their fair value.

As of March 31, 2018, and 2017, securities available for sale in Level 3 did not affect the Bank's profits.

The total unrealized gain for investments available for sale classified as Level 3 at March 31, 2018, is B/.2,044,354 (2017: B/.401,317) located in item line "net changes in securities available for sale" in the consolidated statement of financial position.

As of March 31, 2018, reclassifications between level 2 and level 3 investments in domestic corporate bonds occurred as a result of observed activity in the securities market in which they are listed.

6. Balances and transactions with related parties

Balances and transactions with related parties included in the consolidated financial statements are summarized as follows:

	2018	2017
Operations with related companies		
Consolidated statement of financial position		
Assets		
Securities available for sale	20,764,859	17,715,730
Securities purchased under resale agreements	3,000,024	3,000,016
Loans	70,308,958	64,845,950
Accrued interest receivable	429,152	330,492
Other assets	23,566,590	16,717,449
Liabilities		
Client deposits:		
Demand	21,199,583	20,001,505
Savings	9,321,914	9,362,922
Time	75,100,671	74,865,104
Accrued interest payable	171,368	147,383
Commitment and contingencies	6,332,000	8,044,000
Consolidated statement of profit or loss		
Income and expenses		
Interest and dividend income	2,529,897	2,550,038
Interest expense	2,284,013	2,050,148

	2018	2017
Ooperatioins with directors and key management personnel		
Consolidated statement of financial position		
Assets		
Loans	13,223,965	12,533,838
Accrued interest receivable	44,741	40,985
Liabilities		
Client deposits:		
Demand	2,667,609	2,972,557
Savings	8,253,210	8,907,475
Time	33,626,933	32,653,645
Accrued interest payable	657,426	638,971
Commitments and contingencies	1,521,500	1,521,500
Consolidated statement of profit and loss		
Income and expenses		
Interest income	467,591	407,659
Interest expense	1,011,428	898,802
Key management personnel benefits		
Salaries	2,537,978	2,526,641
Participation in net income	1,620,250	1,557,425
Excess paid-in-capital - share option plan for employees	(416,047)	366,390
Directors fees	265,500	268,500
	4,007,681	4,718,956

As of March 31, 2018, collaterals guaranteeing loans to related parties amounted to B/.113,373,848 (2017: B/.80,753,705), which correspond to property, assets and securities.

As of March 31, 2018, and 2017, no loans with related parties show evidence of impairment. As of March 31, 2018, loans with related parties have maturity dates between April 2018 and May 2047 and annual interest rates ranging from 0.75% to 9% (2017: maturity dates between April 2017 and March 2047 and annual interest rates ranging from 0.75% to 9%).

7. Cash and cash equivalents

	2018	2017
Cash and cash equivalents	32,290,718	35,979,973
Demand deposits	132,273,506	223,278,080
Time deposits	262,400,734	362,155,400
Cash and cash equivalents for purposes of the consolidated statement of cash flows	426,964,958	621,413,453
Less:		
Restricted time deposits	(48,202,032)	(32,905,711)
Time deposits with original maturities over 90 days	(2,355,000)	(2,450,000)
Cash and cash equivalents for purposes of the consolidated statement of cash flows	376,407,926	586,057,742

8. Securities purchased under resale agreements

As of March 31, 2018, securities purchased under resale agreements for B/.3,027,049 (2017: B/.3,035,968) are guaranteed by shares and corporate bonds with maturities in April 2018, August 2018, September 2018 and February 2019 (2017: maturities in April 2017, September 2017 and February 2018).

9. Securities available for sale

	2018	2017
Securities listed in the stock exchange		
Shares issued by companies - domestic	1,157,507	1,896,569
Shares issued by companies - foreign	1,214,724	814,074
Private debt securities - domestic	230,041,107	236,070,051
Private debt securities - foreign	162,326,512	174,571,269
Government debt securities - domestic	20,176,181	20,376,936
Government debt securities - foreign	6,687,060	5,807,400
Investment funds - foreign	1,960,000	1,860,000
	423,563,091	441,396,299
Securities not listed in the stock exchange		
Shares issued y companies - domestic	5,544,671	2,982,447
Government debt securities - domestic	910,637	963,244
	6,455,308	3,945,691
	430,018,399	445,341,990

The net gain on embedded derivatives in securities available for sale as of March 31, 2018 is B/.291,637 (2017: B/.280,684).

As of March 31, 2018, there are securities available for sale for B/.56,934,437 (2017: B/.68,884,513) guaranteeing obligations with financial institutions. See Note 16.

As of March 31, 2018, the Bank sold and redeemed investments for B/.236,200,249 (2017: B/.259,170,494) and, as a result, recorded a gain of B/.1,881,726 (2017: B/.1,426,769), which is included in the consolidated statement of profit or loss.

10. Securities held to maturity

	2018		2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Securities listed in the stock exchange:				
Private debt titles - domestic	3,064,895	3,120,150	3,046,311	3,078,750
Private debt titles - foreign	190,987,638	192,103,975	132,792,821	135,920,315
Government debt titles - domestic	64,746,661	64,746,645	35,337,841	35,981,187
Government debt titles - foreign	57,985,665	57,646,610	62,362,786	62,825,650
	316,784,859	317,617,380	233,539,759	237,805,902

As of March 31, 2018, the annual interest rate earned by securities held to maturity range between 3.125% and 8.875% (2017: 3.125% and 8.875%).

As of March 31, 2018, there are securities held to maturity for B/.35,488,997 (2017: B/.9,327,610) guaranteeing obligations with financial institutions. (See Note 16).

11. Loans

	2018			2017		
	Gross amount	Reserve for impairment	Net amount	Gross amount	Reserve for impairment	Net amount
Domestic:						
Consumer	841,605,737	(18,567,857)	823,037,880	802,550,350	(13,841,101)	788,709,249
Commercial	961,121,862	(11,193,790)	949,928,072	1,038,580,453	(5,971,183)	1,032,609,270
Agricultural	306,054,170	(2,943,369)	303,110,801	324,138,292	(2,095,588)	322,042,704
Pledge	111,553,955	-	111,553,955	124,971,291	-	124,971,291
Overdrafts	141,589,454	(1,121,894)	140,467,560	133,197,277	(1,481,946)	131,715,331
Mortage	1,118,777,607	(3,377,182)	1,115,400,425	989,695,055	(1,818,136)	987,876,919
Industrial	245,395,465	(529,997)	244,865,468	271,231,217	(568,313)	270,662,904
Construction	793,638,354	(3,447,209)	790,191,145	770,887,385	(130,625)	770,756,760
Financial leasings	40,309,852	(1,466,421)	38,843,431	48,216,206	(708,005)	47,508,201
Factoring	257,207,916	(4,718,461)	252,489,455	259,202,319	(3,818,276)	255,384,043
Total domestic	4,817,254,372	(47,366,180)	4,769,888,192	4,762,669,845	(30,433,173)	4,732,236,672
Foreign:						
Commercial	109,188,679	(12,568)	109,176,111	140,655,984	(5,987)	140,649,997
Agricultural	1,280,150	-	1,280,150	1,433,830	-	1,433,830
Industrials	43,841,848	-	43,841,848	43,734,289	-	43,734,289
Construction	45,868,823	-	45,868,823	46,715,830	-	46,715,830
Pledge	17,970,022	-	17,970,022	18,023,251	-	18,023,251
Overdrafts	19,862,966	-	19,862,966	20,503,546	-	20,503,546
Total foreign	238,012,488	(12,568)	237,999,920	271,066,730	(5,987)	271,060,743
	5,055,266,860	(47,378,748)	5,007,888,112	5,033,736,575	(30,439,160)	5,003,297,415
Less:						
Reserve for collective impairment			(2,598,569)			(10,348,065)
Unearned interest and commissions			(11,109,335)			(19,171,400)
Total			4,994,180,208			4,973,777,950

Corporate bonds issued in October 2012 are guaranteed by an Irrevocable Guarantee Trust composed of residential mortgage loans pledged as collateral whose balance as of March 31, 2018, amounted to B/.698,075,217 (2017: B/.724,942,168).

As of March 31, 2018, and 2017, the loan portfolio accrued interest at a rate ranging from 0.75% to 24%.

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

	2018	2017
Fixed rate	637,979,605	628,890,341
Adjustable rate	4,237,500,417	4,091,434,104
Floating rate (Libor or Prime)	179,786,838	313,412,130
	5,055,266,860	5,033,736,575

The movement of the impairment allowance is summarized as follows:

	2018	2017
Balance at beginning of the period	42,973,346	38,848,585
Provision charged to expenses	9,095,331	9,800,540
Recoveries	1,495,090	1,269,491
Written-off loans	(3,586,450)	(9,131,391)
Balance at end of the period	49,977,317	40,787,225

Financial leasing

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

	2018	2017
Minimum payments up to 1 year	1,768,887	1,991,233
Minimum payments from 1 to 5 years	38,540,964	46,224,973
Total minimum payments	40,309,851	48,216,206
Less: unearned interest	(4,390,896)	(5,937,919)
Total finance leases, net	35,918,955	42,278,287

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

	2018	2017
Movable property	872,915,066	986,779,603
Immovable property	6,016,455,922	5,739,503,957
Deposits in own Bank	220,869,198	230,963,875
Securities	92,836,531	108,950,182
Others	43,909,174	44,801,523
Total	7,246,985,891	7,110,999,140

Restructured loans

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

As of March 31, 2018, renegotiated loans that would otherwise be overdue or impaired total B/.82,431,104 (2017: B/.49,229,194).

	2018	**2017**
Consumer:		
Personal loans	5,807,390	5,671,507
Mortgage loans	20,320,109	14,668,445
Corporate:		
Commercial loans	56,303,605	28,889,242
Total	82,431,104	49,229,194

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements
for the nine months ended March 31, 2018
(In balboas)

12. Property, furniture, equipment and improvements

2018

	Land	Property	Office furniture and equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At the beginning of the period	4,466,942	59,815,280	21,232,556	58,546,030	2,753,700	8,469,472	47,064,554	202,348,534
Additions or purchase	38,518	2,684,704	1,044,554	1,241,489	411,500	552,516	18,666,985	24,640,266
Sales and disposals	-	(1,720,320)	(652,477)	(1,037,684)	(367,467)	(1,142,804)	-	(4,920,752)
At the end of the period	4,505,460	60,779,664	21,624,633	58,749,835	2,797,733	7,879,184	65,731,539	222,068,048
Accumulated depreciation and amortization:								
At the beginning of the period	-	12,646,763	11,728,391	34,065,165	1,877,174	3,190,632	-	63,508,125
Expense of the period	-	1,605,156	1,899,316	4,276,049	370,757	596,835	-	8,748,113
Sales and disposals	-	(586,852)	(643,871)	(1,035,908)	(367,467)	(1,142,804)	-	(3,776,902)
At the end of the period	-	13,665,067	12,983,836	37,305,306	1,880,464	2,644,663	-	68,479,336
Net balances	4,505,460	47,114,597	8,640,797	21,444,529	917,269	5,234,521	65,731,539	153,588,712

2017

	Land	Property	Office furniture and equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At the beginning of the period	4,466,942	39,278,681	17,361,775	43,869,562	2,840,106	6,490,394	45,309,891	159,617,351
Additions or purchases	-	20,495,106	3,807,412	3,490,499	137,500	2,602,003	4,547,645	35,080,165
Sales and disposals	-	-	(161,472)	(573,217)	(169,896)	(347,197)	-	(1,251,782)
At the end of the period	4,466,942	59,773,787	21,007,715	46,786,844	2,807,710	8,745,200	49,857,536	193,445,734
Accumulated depreciation and amortization:								
At the beginning of the period	-	10,793,949	9,829,235	29,949,537	1,582,938	3,297,510	-	55,453,169
Expense of the period	-	1,325,749	1,638,565	3,844,876	403,893	316,448	-	7,529,531
Sales and disposals	-	-	(145,046)	(571,558)	(144,850)	(347,199)	-	(1,208,653)
At the end of the period	-	12,119,698	11,322,754	33,222,855	1,841,981	3,266,759	-	61,774,047
Net balances	4,466,942	47,654,089	9,684,961	13,563,989	965,729	5,478,441	49,857,536	131,671,687

13. Other assets

	2018	2017
Accrued interest receivable	64,920,522	51,452,606
Accounts receivable National Treasury	45,589,280	37,752,227
Accounts receivable related companies	23,566,591	16,717,449
Goodwill (a)	16,762,687	16,762,687
Receivables	13,125,204	7,386,365
Deferred income tax	12,178,812	9,954,769
Derivative instrument	10,234,378	-
Intangible assets (b)	9,034,680	9,288,337
Prepaid expenses	8,589,768	10,215,450
Guarantee deposits	6,068,498	8,144,861
Insurance premium receivables	5,476,934	6,093,430
Severance fund	5,112,036	4,551,010
Tax credit - agrarian subsidy	4,031,207	4,345,593
Items in transit	3,206,461	18,107,895
Claims to insurance companies	1,597,497	1,493,134
Judicial deposits	1,202,710	1,338,901
Others	802,187	502,369
Customer liabilities under acceptances	384,236	452,193
Foreclosed assets	52,232	136,066
	231,935,920	204,695,342

(a) <u>Goodwill</u>

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

Acquisition date	Company acquired	% of shares acquired	2018	2017
June 1999	Banco Confederado de América Latina, S.A. (COLABANCO)	100%	8,330,187	8,330,187
December 2004	Afianzadora Colón, S.A.	100%	25,000	25,000
December 2014	PROGRESO - Administradora Nacional de Inversiones, Fondos de Pensiones y Cesantías, S.A.	100%	8,407,500	8,407,500
			16,762,687	16,762,687

(b) Intangible assets

As of March 31, 2018, the consolidated statement of financial position holds intangible assets for B/.9,034,680 (2017: B/.9,288,337) of which B/.1,389,963 resulted from the acquisition of the rights to manage the severance funds' portfolio of HSBC Investment Corporation (Panamá), S.A. by Progreso, which have an estimated life of 20 years. As a result of the acquisition of Progreso by Global Bank, intangible assets were generated for B/.8,454,809, of which B/.1,364,809 correspond to trademarks with an indefinite life and B/.7,090,000 with an estimated life for the client portfolio of 40 years.

	2018	2017
Cost:		
Rights to manage the HSBC severance fund portfolio		
Investment Corporation (Panamá, S. A.)	1,389,963	1,389,963
Copyright and other intangibles	8,454,809	8,454,809
	9,844,772	9,844,772
Accumulated amortization:		
Balance at beginning of the period	(621,336)	(368,085)
Amortization	(188,756)	(188,350)
	(810,092)	(556,435)
Net balance at end of the period	9,034,680	9,288,337

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 March 31, 2018 and 2017, there were no impairment losses in goodwill or intangible assets. The valuation, made using the method of net discounted future cash flows generated by the acquired assets or business, indicates that the present value of these exceeds the carrying amount of goodwill or intangible assets.

To carry out the valuation of acquired assets and businesses, expected net cash flows of assets or businesses were projected for periods between six and ten years, and also an increase is defined in perpetuity or flow multiples at the end of the flow projected period to estimate the terminal flow. Growth rates in the assets or businesses fluctuate based on their nature, and the current range is between 0 and 10%, while the perpetual growth rates are between 0% and 3%.

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

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

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

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

14. Securities sold under repurchase agreements

As of March 31, 2018, there are repurchase agreements held for B/.59,560,000, guaranteed by investments with interest rates of 2.68698% and 3.78557% with maturities in May and June 2018.

15. Client deposits

2018	Demand	Savings	Time
Economic segment			
Corporate	328,798,776	182,412,497	1,466,430,051
Consumer	70,095,486	454,412,401	919,534,860
	398,894,262	636,824,898	2,385,964,911
Segment			
Domestic	369,281,909	579,996,124	2,205,606,032
Foreign	29,612,353	56,828,774	180,358,879
	398,894,262	636,824,898	2,385,964,911

2017	Demand	Savings	Time
Economic segment			
Corporate	413,572,455	192,651,557	1,471,635,483
Consumer	76,013,647	441,027,201	858,611,652
	489,586,102	633,678,758	2,330,247,135
Segment			
Domestic	438,284,955	570,549,524	2,163,043,107
Foreign	51,301,147	63,129,234	167,204,028
	489,586,102	633,678,758	2,330,247,135

16. Obligations with financial institutions

	2018	2017
As of March 31, 2018 there are obligations with other banks to finance foreign trade, with several maturities up to March 2019 and annual interest rates between 1.7793% and 4.2664% and as at March 31, 2017 between 1.1461% and 3.5712%.	322,981,537	289,394,783
As of March 31, 2018, there are obligations with financial institutions to manage liquidity in the short term with renewable maturities as of June 2018 and interest rates between 2.1500% and 3.3005% reviewed by semester and as at March 31, 2017 up to 2.6254%.	67,806,833	50,600,000
As of March 31, 2018, there are obligations with international organizations for the management of long-term liquidity with renewable maturities between March 2019 and June 2024 and interest rates between 4.716% and 5.243% and as at March 31, 2017 between 4.0756% and 5.13%.	107,754,457	83,557,568
As of March 31, 2018, there are obligations with foreign banks for working capital, with several maturities up to March 2021 and annual interest rates between 2.9986% and 4.70380% and as at March 31, 2017 between 2.314% and 3.80572%.	180,933,496	154,048,729
As of March 31, 2018, there are obligations with a multilateral financial institution, with several installments and final maturities from May 2018 until December 2018, interest rates are between 2.9613% and 5.16%, reviewed by semester and as March 31, 2017 between 2.76% and 5.1582%.	27,750,000	22,250,000
	707,226,323	599,851,080

As of March 31, 2018, there are securities available for sale for B/.56,934,437 (2017: B/.68,884,513) and securities held to maturity for B/.35,488,997 (2017: B/.9,327,610), which guarantee these obligations with financial institutions. Additionally, there are restricted time deposits as of March 31, 2018 for B/.48,202,032 (2017: B/.32,880,711), which guarantee these obligations with financial institutions. See Notes 7, 9 and 10.

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

17. Financial debt Issued

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

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

Series	Issuance date	Interest Rate	Maturity	2018
C-D	June 7, 2017	3.00%	Jun-18	8,000,000
C-E	August 4, 2017	3.25%	Jul-18	5,000,000
C-F	September 4, 2017	3.25%	Aug-18	6,000,000
C-G	September 25, 2017	3.25%	Sep-18	2,471,000
C-H	November 14, 2017	2.25%	May-18	2,000,000
C-I	March 16,2018	3.25%	Mar-19	1,560,000
				25,031,000

Series	Issuance date	Interest Rate	Maturity	2018
B-X	June 9, 2016	2.75%	Jun-17	7,000,000
B-Y	August 9, 2016	2.75%	Aug-17	2,000,000
B-Z	September 8, 2016	3.00%	Sep-17	5,000,000
C-A	September 30, 2016	3.00%	Sep-17	7,000,000
C-B	March 16,2017	3.00%	Mar-18	5,000,000
				26,000,000

b) Corporate Bonds

Series	Interest rate	Maturity	2018	2017
Series D - Issuance of October 2008	5.250%	Feb-18	-	17,493,987
Series E - Issuance of October 2008	5.250%	Feb-18	-	14,495,018
Series A - Issuance of May 2011	6.000%	Feb-19	-	50,000,000
Series C - Issuance of May 2011	4.750%	May-17	-	10,000,000
Series D - Issuance of May 2011	4.750%	Feb-18	-	13,700,000
Series E - Issuance of May 2011	4.991%	Apr-19	10,000,000	10,000,000
Series A - Issuance of October 2012	4.750%	Oct-17	-	82,825,903
Series A - Issuance of June 2014	4.802%	Nov-18	79,468,941	75,334,769
Series A - Issuance of October 2014	5.125%	Oct-19	542,908,523	547,836,364
Series A - Issuance of October 2016	4.500%	Oct-21	656,216,881	675,384,800
			1,288,594,345	1,497,070,841

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

October 2008 Issuance – The October 2008 issuance is backed by the Bank's overall credit.

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

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

October 2012 Issuance – An Irrevocable Guarantee Trust composed of residential mortgage loans acts as collateral for the October 2012 bond issuance. This collateral includes any capital, interest, costs, fees, expenses related to these loans, including insurance policies guaranteeing any compensation payments related to these loans. Tax credits arising from the preferential mortgage portfolio also act as collateral.

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

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

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

The Bank entered into interest rate and exchange rate swaps on bonds, which qualify as fair value hedges. As of March 31, 2018, the net fair value of the hedge instrument attributable to the hedged risk decreased by B/.47,420,317 (2017: B/.21,085,121). See Notes 13 and 19.

c) Subordinated bonds

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

Series	Interest rate	Maturity	2018	2017
Series A - Issue of August 2010	6.75%	Aug-70	1,752,000	1,852,000
Series B - Issue of November 2010	6.75%	Aug-70	8,848,414	8,832,506
Series C - Issue of December 2010	6.75%	Aug-70	5,654,754	5,660,227
Series D - Issue of May 2011	6.75%	Aug-70	386,000	386,000
Series E - Issue of October 2014	6.75%	Aug-70	694,000	694,000
			17,335,168	17,424,733

d) Perpetual bonds

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

Series	Interest rate	2018	2017
Series A - Issuance of May 2016	6.75%	23,782,207	23,768,239
Series B - Issuance of July 2016	6.75%	91,360,477	85,300,798
		115,142,684	109,069,037

18. Reserves for insurance operations

Unearned premiums

	2018	2017
Balance at the beginning of period	5,516,386	4,482,563
Issued premiums	17,735,192	19,564,268
Earned premiums	(9,164,117)	(8,204,606)
Balance at the end of the period	14,087,461	15,842,225
Reinsurers' participation	(8,096,461)	(10,156,874)
Unearned premiums, net	5,991,000	5,685,351

Unpaid claims, estimates	2018	2017
Balance at the beginning of the period	4,250,783	3,767,279
Incurred claims	5,805,223	5,425,083
Paid claims	(6,022,305)	(5,207,425)
Claims pending settlement, net estimates	4,033,701	3,984,937
	10,024,701	9,670,288

19. Other liabilities

	2018	2017
Accrued interest payable	55,829,650	46,877,354
Hedging derivative (a)	47,420,317	21,085,121
Other creditors	43,067,753	92,622,868
Cashier checks and certificates	22,606,285	29,357,250
Items in transit	13,775,452	5,612,079
Employee benefits and other labor liabilities	13,715,506	12,838,498
Provisions of insurance operations	11,941,490	12,646,805
Factoring guarantee deposits	4,737,782	5,899,042
Other provisions	3,234,312	3,691,709
Accounts payable - insurance	1,819,086	2,063,738
Judicial deposits and others	1,687,434	174,554
Interest payable Compensations Special Fund (FECI)	1,645,774	1,956,891
Pending acceptances	384,236	452,193
Income tax payable	23,339	22,584
Derivative to negotiate	-	601,803
	221,888,416	235,902,489

a) Hedge derivative

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

Fair value hedge

In order to manage its position in the consolidated statement of financial position, the Bank entered into interest rate swap contracts on corporate bonds and clients' time deposits with a face value of B/.1,455,003,000 as of March 31, 2018 (2017: B/.1,405,003,000) allowing the conversion of the fixed interest rate into a floating rate during each payment period. The Bank has also entered into cross currency swap contracts on corporate bonds with a face value of B/.83,892,617, respectively, allowing the conversion of the fixed interest rate into a floating interest rate and to cover the variability of the exchange rate during each payment period.

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

	2018		
		Remaining maturity of nominal value	
Accounting method	**Over 1 year**	**Less than 1 year**	**Total**
Fair value	1,455,003,000	83,892,617	1,538,895,617
Total	1,455,003,000	83,892,617	1,538,895,617

	2017		
		Remaining maturity of nominal value	
Accounting method	**Over 1 year**	**Less than 1 year**	**Total**
Fair value	1,388,895,617	100,000,000	1,488,895,617
Total	1,388,895,617	100,000,000	1,488,895,617

The estimated face value and fair value of the interest rate derivative instruments as of March 31, 2018 and 2017, are presented in the table below. The fair value of the derivative financial instruments is estimated using internal valuation techniques with observable market data.

	2018		**2017**	
Type	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Derivatives for fair value hedging (for funding)	1,538,895,617	(47,420,317)	1,488,895,617	(21,085,121)
Total	1,538,895,617	(47,420,317)	1,488,895,617	(21,085,121)

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

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

b) Customers' and other withheld guarantees

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

20. Common shares

As of March 31, 2018 and 2017, the authorized share capital of Global Bank Corporation is comprised of 2,000,000 common shares with no par value, of which 106,500 shares are issued and outstanding in the amount of B/.98,202,657. Fondo Global de Inversiones increased its class B share capital by an additional amount of B/.5,018,004 (2017: B/.5,000,000) as a result of the placement of new investors. As of March 31, 2018, dividends were paid on common shares for a total of B/.17,363,031 (2017: B/.12,900,483).

21. Interest and commission income and expenses

	2018	**2017**
Interest earned on:		
Loans	241,092,881	232,642,410
Deposits	1,924,329	1,511,321
Investments	27,960,548	21,798,276
	270,977,758	255,952,007
Interest expense:		
Deposits	(81,194,036)	(74,555,942)
Obligations with financial institutions and repurchase agreements	(17,337,106)	(13,493,166)
Negotiable commercial securities and bonds	(61,613,738)	(52,383,449)
	(160,144,880)	(140,432,557)
Net income from interest	110,832,878	115,519,450
Commissions earned from:		
Loans	15,634,687	17,542,762
Letters of credit	2,399,154	6,162,870
Savings accounts and debit cards	3,953,867	3,904,802
Trust and management services	6,892,536	6,693,072
Others	7,037,579	8,028,254
	35,917,823	42,331,760
Commission expenses	(8,841,073)	(7,848,163)
Net income from commissions	27,076,750	34,483,597
Net income from interest and commissions	137,909,628	150,003,047

22. Other income

	2018	2017
Net gain	1,881,726	1,440,291
Net gain (loss) in financial instruments	38,276	(1,952,509)
Insurance premiums, net	6,312,791	6,051,688
Trust and brokerage services	106,687	122,236
Other loss	(92,208)	(574,041)
	8,247,272	5,087,665

23. Other expenses

	2018	2017
Other general expenses	4,252,594	3,960,303
Other operating expenses	3,456,211	3,021,963
Surveillance	1,514,443	1,435,990
Allowance for the redemption of miles	1,500,000	1,199,997
Communications and correspondance	1,233,208	1,339,920
Public services	1,101,739	1,009,357
Supplies and stationery	585,225	610,098
Insurance	261,771	1,440,442
	13,905,191	14,018,070

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

As of March 31, 2018, key executive officers held stock options over 118,466 common shares of the Parent Company (G.B. Group Corporation) (2017: 113,607) of which 39,679 shares may be exercised in 2018; 22,406 may be exercised in 2019; and 56,381 may be exercised in 2020, with an average strike price of B/.39.47 as of March 31, 2018 (2017: B/.36.88). The Bank recognized income for B/.416,047 (2017: expenses for B/.366,390), in the consolidated statement of profit or loss and the corresponding entry in equity, which reflects the contribution of capital it will receive from its Parent Company.

25. Operating lease agreements

Lease agreements

The Bank has several operating leases for its premises with periods from 1 to 5 years. For the year ended March 31, 2018 lease payments were B/.3,714,115 (2017: B/.3,205,748). Minimum lease commitments under all lease agreements for the next five years are detailed below:

	2018	**2017**
Up to 1 year	2,742,575	3,245,267
Between 1 and 5 years	11,853,285	12,739,450
	14,595,860	15,984,717

26. Commitments and contingencies

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

	2018	**2017**
Letters of credit	63,195,994	105,044,360
Endorsements and guarantees	414,047,193	547,790,886
Promissory notes	311,894,287	386,877,251
Unused credit lines	180,802,623	242,640,014
Total	969,940,097	1,282,352,511

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

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

As of March 31, 2018, the Bank has commitments for construction projects of its new facilities of B/.14,995,151 (2017: B/.20,015,367).

27. Management of trust contracts and investment portfolio

The Bank held the following under its management, as of March 31, 2018:

(a) Trust contacts at the clients' risk that amounted to B/.1,559,451,592 (2017: B/.1,456,571,863).

(b) An investment portfolio at the clients' risk amounting to B/.1,128,716,851 (2017: B/.1,421,776,146).

Taking into account the nature of these services, Management does not consider there is any risk to the Bank.

28. Management of pension and severance funds

	2018	2017
SIACAP	-	283,585,446
Severance Fund	258,582,743	244,493,527
Retirement Fund (under Law No. 10)	216,610,114	194,150,366
Pribanco and Conase Plus	475,337	654,224
Bipan Plus	81,695	81,396
Citibank, N. A.	5,042,687	5,790,671
Other assets in administration	758,391,043	-
	1,239,183,619	728,755,630

29. Income tax

Income tax returns of companies incorporated at the Republic of Panama are subject to examination by the tax authorities for the last three years, including the period ended March 31, 2018, according to current fiscal regulations.

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

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

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

The current income tax expense is detailed as follows:

	2018	2017
Current income tax	6,664,998	8,183,542
Deferred income tax from temporary differences	(1,646,980)	(576,257)
Income tax	5,018,018	7,607,285

The average effective rate of the current income tax is 11.50% (2017: 12.00%).

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

	2018	2017
Balance at the beginning of the period	10,531,833	9,378,512
Credit to profit or loss during the period	1,646,979	576,257
Balance at the end of the period	12,178,812	9,954,769

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

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

	2018	2017
Profit before income tax	57,956,512	68,196,196
Less: non-taxable income	(57,615,858)	(69,870,200)
Plus: non-deductible expenses	26,253,910	34,235,633
Plus: Tax loss on subsidiaries	17,517	86,260
Tax base	26,612,081	32,647,889
Income tax calculated at 25%	6,653,020	8,161,972
Remittance income tax	11,978	21,570
Current income tax expense	6,664,998	8,183,542

Transfer Pricing:

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

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

30. Segment information

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

	2018			
	Banking and financial activities	**Insurance**	**Pension and severance funds**	**Total consolidated**
Interest and commission income	299,935,042	1,225,474	5,735,065	306,895,581
Interest and provision expenses	178,081,284	-	-	178,081,284
Other income, net	1,632,683	6,312,791	301,798	8,247,272
Other expenses	66,187,620	1,913,501	2,255,823	70,356,944
Depreciation and amortization expense	8,655,077	18,356	74,680	8,748,113
Profit before income tax	48,643,744	5,606,408	3,706,360	57,956,512
Income tax	3,068,171	1,114,303	835,544	5,018,018
Net profit	45,575,573	4,492,105	2,870,816	52,938,494
Total assets	6,496,187,327	42,134,486	18,178,292	6,556,500,105
Total liabilities	5,929,893,864	15,611,114	745,082	5,946,250,060

	2017			
	Banking and financial activities	**Insurance**	**Pension and severance funds**	**Total consolidated**
Interest and commission income	292,248,800	1,137,357	4,897,610	298,283,767
Interest and provision expenses	158,081,260	-	-	158,081,260
Other income, net	(1,327,566)	6,051,688	363,543	5,087,665
Other expenses	65,664,539	1,781,854	2,118,052	69,564,445
Depreciation and amortization expense	7,403,740	55,004	70,787	7,529,531
Profit before income tax	59,771,695	5,352,187	3,072,314	68,196,196
Income tax	5,896,265	1,042,706	668,314	7,607,285
Net profit	53,875,430	4,309,481	2,404,000	60,588,911
Total assets	6,556,994,799	40,584,587	15,896,763	6,613,476,149
Total liabilities	6,035,889,154	15,592,393	666,715	6,052,148,262

31. Bank Subsidiaries

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

Companies	Main economic activity	Date of incorporation	Beginning of operations	Country of incorporation	Percentage of ownership
Factor Global, Inc.	Purchase of discounted invoices	dec-95	1995	Panamá	100%
Global Financial Funds Corporation	Fiduciary Trust Services	sep-95	1995	Panamá	100%
Global Capital Corporation	Corporate finance and financial advisory	may-93	1994	Panamá	100%
Global Capital Investment Corporation	Purchase of discounted invoices	jun-93	1993	British Virgin Island	100%
Global Valores, S. A.	Asset Management	aug-02	2002	Panamá	100%
Global Bank Overseas and Subsidiaries	Offshore Bank	aug-03	2003	Montserrat	100%
Aseguradora Global, S. A.	Subscription and issuance of insurance policies	apr-03	2004	Panamá	100%
Durale Holdings, S. A.	Ownership and management of real estate	jan-06	2006	Panamá	100%
Inmobiliara Arga, S. A.	Ownership and management of real estate	dec-09	2009	Panamá	100%
Progreso, S. A.	Pension Fund Management	oct-98	2014	Panamá	100%
Fondo Global de Inversiones	Investment company	sep-16	2016	Panamá	100%
Anverli Investments Corporation	Ownership and management of real estate	jan-17	2017	Panamá	100%

32. Regulatory aspects

Agreement 4-2013

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

Specific provisions

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

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

Loan categories

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

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

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

As of March 31, 2018 and 2017, the classification of the loan portfolio and loan loss reserves based on Agreement 4-2013 is as follows:

2018

	Normal	Special mention	Subnormal	Doubtful	Unrecoverable	Total
Corporate loans	2,859,625,960	108,657,283	15,525,380	8,498,341	41,098,840	3,033,405,804
Consumer loans	1,907,798,038	61,346,864	11,768,933	11,474,842	23,917,194	2,016,305,871
Other loans	5,555,185	-	-	-	-	5,555,185
Total	4,772,979,183	170,004,147	27,294,313	19,973,183	65,016,034	5,055,266,860
Provision for individual impairment	-	8,966,154	6,682,331	5,938,314	25,791,949	47,378,748
Provision for collective impairment	2,598,569	-	-	-	-	2,598,569

2017

	Normal	Special mention	Subnormal	Doubtful	Unrecoverable	Total
Corporate loans	3,084,743,425	51,273,908	3,956,257	26,757,793	15,923,068	3,182,654,451
Consumer loans	1,781,493,766	38,254,277	8,505,384	4,224,771	14,213,116	1,846,691,314
Other loans	4,390,398	-	-	-	412	4,390,810
Total	4,870,627,589	89,528,185	12,461,641	30,982,564	30,136,596	5,033,736,575
Provision for individual impairment	-	4,106,570	2,910,571	7,265,231	16,156,788	30,439,160
Provision for collective impairment	10,348,065	-	-	-	-	10,348,065

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

As of March 31, 2018 and 2017, the classification of the loan portfolio by maturity profile based on Agreement 4-2013 was as follows:

2018	Current	Delinquent	Overdue	Total
Corporate	2,974,467,339	4,900,290	54,038,175	3,033,405,804
Consumer	1,897,887,608	78,151,459	40,266,804	2,016,305,871
Other	5,555,185	-	-	5,555,185
Total	4,877,910,132	83,051,749	94,304,979	5,055,266,860

2017	Current	Delinquent	Overdue	Total
Corporate	3,134,369,889	1,886,107	46,398,455	3,182,654,451
Consumer	1,785,120,027	37,947,618	23,623,669	1,846,691,314
Other	4,390,398	-	412	4,390,810
Total	4,923,880,314	39,833,725	70,022,536	5,033,736,575

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

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

Loans that do not accrue interest as of March 31, 2018 amount to B/.83,511,427 (2017: B/.62,101,546).

Dynamic reserve

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

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

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

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

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

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

Table for calculating dynamic reserves is as follows:

Alpha	Beta
1.50%	5.00%

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

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

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

Accounting treatment for differences between prudential standards and IFRSs

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

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

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

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

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

As of March 31, 2018 and 2017, the amount of the dynamic reserve by component is as follows:

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

Off-balance sheet operations

The Bank has made the classification of off-balance sheet operations and reserves required as of March 31, 2018 and 2017, based on Agreement No.4-2013 issued by the Superintendency of Banks of Panama shown below:

2018	Normal	Special mention	Subnormal	Doubtful	Unrecoverable	Total
Letters of credit	63,195,994	-	-	-	-	63,195,994
Endorsements and guarantees	414,047,193	-	-	-	-	414,047,193
Promissory notes	311,894,287	-	-	-	-	311,894,287
Unused credit lines	180,802,623	-	-	-	-	180,802,623
Total	969,940,097	-	-	-	-	969,940,097

2017	Normal	Special mention	Subnormal	Doubtful	Unrecoverable	Total
Letters of credit	105,044,360	-	-	-	-	105,044,360
Endorsements and guarantees	547,790,886	-	-	-	-	547,790,886
Promissory notes	386,877,251	-	-	-	-	386,877,251
Unused credit lines	242,640,014	-	-	-	-	242,640,014
Total	1,282,352,511	-	-	-	-	1,282,352,511

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

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

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

Foreclosed assets

As of March 31, 2018 and 2017, the regulatory reserve on foreclosed assets amounts to B/.4,964 based on the provisions of Agreement 3-2009 of the Superintendency of Banks of Panama.

Premiums and notes receivable

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

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

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

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

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

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

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

Technical reserves

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

Assets admitted free of encumbrances must cover such capital reserves.

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

	Reserve for statistical deviations		Reserve for catastrophic risk and contingencies	
	2018	**2017**	**2018**	**2017**
Balance at the beginning of the period	736,674	614,631	736,674	614,631
Increase in reserve funds	96,387	94,074	96,387	94,074
Balance at the end of the period	833,061	708,705	833,061	708,705

Legal Reserve

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

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

The movement of the legal reserve is detailed below:

	2018	**2017**
Balance at the beginning of the period	4,518,323	3,754,855
Increase in reserve funds	632,463	589,966
Balance at the end of the period	5,150,786	4,344,821

Laws and Regulations:

a) *Banking Law*

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

Compliance with the regulatory body

Liquidity ratio

As of March 31, 2018, the liquidity ratio percentage reported by the Bank to the regulatory body, under the parameters of Agreement 4-2008, was 53.05% (2017: 47.64%). (See Note 4.3).

Capital Adequacy

The Law demands that Banks with a general license must have a minimum paid-in capital or assigned capital of ten million balboas (B/.10,000,000) and equity funds of no less than 8% of their weighted assets, including off-balance sheet operations. As of March 31, 2018, the Bank holds consolidated equity funds of approximately 14.88% (2017: 13.52%) of its risk-weighted assets, in accordance with Agreement 1-2015 and Agreement 3-2016. (See Note 4.7).

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

b) *Insurance and reinsurance Law*

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

c) *Securities Law*

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

d) Trust laws

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

e) Financial leasing Law

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

33. Approval of the consolidated financial statements

The consolidated financial statements of Global Bank Corporation and Subsidiaries for the period ended March 31, 2018 were authorized by General Management and approved by the Board of Directors for their issuance on April 23, 2018.

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Global Bank Corporation and Subsidiaries

Consolidating information on statement of financial position
as of March 31, 2018
(In balboas)

	Consolidated total	Disposals	Sub - total consolidated	Global Bank Corporation	Global Financial Funds Corp.	Factor Global, Inc.	Global Capital Corp.	Global Capital Investment Corp.	Global Valores, S.A.	Global Bank Overseas y Subsidiarias	Durale Holdings, S.A.	Aseguradora Global, S.A.	Progreso, S.A.	Inmobiliaria Arga, S.A.	Anverli Investment, Corp	Fondo Global de Inversiones
Assets																
Cash and cash equivalents	424,609,958	(469,260,945)	893,870,903	521,075,424	1,958,167	40,267,170	907,614	6,208,669	6,836,388	291,343,827	1,640,731	18,503,932	4,654,675	-	-	474,306
Time deposits with original maturities greater than 90 days	2,355,000		2,355,000	2,355,000												
Securities purchased under resale agreements	3,027,049	-	3,027,049	3,027,049	-	-	-	-	-	-	-	-	-	-	-	-
Securities available for sale	430,018,399	(13,890,080)	443,908,479	401,343,776	-	211,700	-	-	2,858,580	5,307,971	-	14,233,621	10,462,922	-	-	9,489,909
Securities held to maturity	316,784,859	-	316,784,859	316,784,859	-	-	-	-	-	-	-	-	-	-	-	-
	746,803,258	(13,890,080)	760,693,338	718,128,635	-	211,700	-	-	2,858,580	5,307,971	-	14,233,621	10,462,922	-	-	9,489,909
Loans	4,994,180,208	(130,354,567)	5,124,534,775	4,954,256,590	-	-	-	314,406	-	169,963,779	-	-	-	-	-	-
Property, furniture, equipment and improvements	153,588,712	-	153,588,712	107,910,389	-	-	-	-	-	178	-	88,645	1,259,300	43,952,969	377,231	-
Other assets	231,935,920	(242,720,536)	474,656,456	403,438,883	215,101	56,586,641	11,363	108,351	419,378	1,167,426	1,470,769	9,308,288	1,801,395	-	-	128,861
Total assets	6,556,500,105	(856,226,128)	7,412,726,233	6,710,191,970	2,173,268	97,065,511	918,977	6,631,426	10,114,346	467,783,181	3,111,500	42,134,486	18,178,292	43,952,969	377,231	10,093,076

Global Bank Corporation and Subsidiaries

Consolidating information on statement of financial position
as of March 31, 2018
(In balboas)

	Consolidated total	Disposals	Sub - total consolidated	Global Bank Corporation	Global Financial Funds Corp.	Factor Global, Inc.	Global Capital Corp.	Global Capital Investment Corp.	Global Valores, S.A.	Global Bank Overseas y Subsidiarias	Durale Holdings, S.A.	Aseguradora Global, S.A.	Progreso, S.A.	Inmobiliaria Arga, S.A.	Anverli Investment, Corp	Fondo Global de Inversiones
Liabilities and shareholder's equity																
Client deposits	3,421,684,071	(299,560,914)	3,721,244,985	3,631,774,591	-	-	-	-	-	89,470,394	-	-	-	-	-	-
Bank deposits	89,788,053	(169,700,000)	259,488,053	159,988,053	-	-	-	-	-	99,500,000	-	-	-	-	-	-
Securities sold under repurchase agreements	59,560,000	-	59,560,000	59,560,000	-	-	-	-	-	-	-	-	-	-	-	-
Obligations with financial institutions	707,226,323	(130,354,567)	837,580,890	707,226,323	-	-	-	-	-	130,000,000	-	-	-	-	354,567	-
Negotiable trade securities	25,031,000	-	25,031,000	25,031,000	-	-	-	-	-	-	-	-	-	-	-	-
Corporate bonds	1,288,594,345	-	1,288,594,345	1,288,594,345	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated bonds	17,335,168	(100,000)	17,435,168	17,435,168	-	-	-	-	-	-	-	-	-	-	-	-
Perpetual bonds	115,142,684	(13,790,000)	128,932,684	128,932,684	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	221,888,416	(179,347,475)	401,235,891	241,635,826	145,525	96,053,794	5,836	1,073	241,036	3,648,383	1,485,055	15,611,114	745,082	41,588,500	48,627	26,040
Total liabilities	5,946,250,060	(792,852,956)	6,739,103,016	6,260,177,990	145,525	96,053,794	5,836	1,073	241,036	322,618,777	1,485,055	15,611,114	745,082	41,588,500	403,194	26,040
Shareholder's equity:																
Common shares	103,220,661	(66,516,143)	169,736,804	98,202,657	150,000	10,000	10,000	100,000	500,000	32,324,680	723,900	15,000,000	10,137,691	2,524,872	10,000	10,043,004
Excess paid-in capital	2,203,687	-	2,203,687	2,203,687	-	-	-	-	-	-	-	-	-	-	-	-
Capital reserve	36,290,278	72,595	36,217,683	(634,822)	-	161,700	-	-	346,454	36,252,892	-	89,846	20,698	-	-	(19,085)
Regulatory reserve	74,104,871	-	74,104,871	67,287,963	-	-	-	-	-	-	-	6,816,908	-	-	-	-
Retained earnings	394,430,548	3,070,376	391,360,172	282,954,495	1,877,743	840,017	903,141	6,530,353	9,026,856	76,586,832	902,545	4,616,618	7,274,821	(160,403)	(35,963)	43,117
Total shareholders' equity	610,250,045	(63,373,172)	673,623,217	450,013,980	2,027,743	1,011,717	913,141	6,630,353	9,873,310	145,164,404	1,626,445	26,523,372	17,433,210	2,364,469	(25,963)	10,067,036
Total liabilities and shareholder's equity	6,556,500,105	(856,226,128)	7,412,726,233	6,710,191,970	2,173,268	97,065,511	918,977	6,631,426	10,114,346	467,783,181	3,111,500	42,134,486	18,178,292	43,952,969	377,231	10,093,076

Global Bank Corporation and Subsidiaries

Consolidating information on the statement of profit or loss and retained earnings (accumulated deficit)
for the nine months ended March 31, 2018
(In balboas)

	Consolidated total	Disposals	Sub - total consolidated	Global Bank Corporation	Global Financial Funds Corp.	Factor Global, Inc.	Global Capital Corp.	Global Capital Investment Corp.	Global Valores, S.A.	Global Bank Overseas y Subsidiarias	Durale Holdings, S.A.	Aseguradora Global, S.A.	Progreso, S.A.	Inmobiliaria Arga, S.A.	Anverli Investment, Corp	Fondo Global de Inversiones
Interest and commission income																
Interest earned on:																
Loans	241,092,881	(2,353,688)	243,446,569	234,985,001	-	-	-	15,033	-	8,446,535	-	-	-	-	-	-
Deposits	1,924,329	(2,404,798)	4,329,127	2,572,505	33,314	-	21,905	-	177,607	891,966	-	527,165	90,897	-	-	13,768
Investments	27,960,548	(703,261)	28,663,809	21,705,183	-	-	-	-	127,509	5,349,152	-	698,309	459,416	-	-	324,240
Total interest earned	270,977,758	(5,461,747)	276,439,505	259,262,689	33,314	-	21,905	15,033	305,116	14,687,653	-	1,225,474	550,313	-	-	338,008
Interest expense on:																
Deposits	81,194,036	(5,582,406)	86,776,442	81,890,465	-	-	-	-	204	4,877,394	-	-	-	-	8,379	-
Borrowings and repurchase agreements	17,337,106	-	17,337,106	17,337,106	-	-	-	-	-	-	-	-	-	-	-	-
Marketable securities and bonds	61,613,738	-	61,613,738	61,613,738	-	-	-	-	-	-	-	-	-	-	-	-
Total interest expense	160,144,880	(5,582,406)	165,727,286	160,841,309	-	-	-	-	204	4,877,394	-	-	-	-	8,379	-
	110,832,878	120,659	110,712,219	98,421,380	33,314	-	21,905	15,033	304,912	9,810,259	-	1,225,474	550,313	-	(8,379)	338,008
Commissions earned on:																
Loans	15,634,687	-	15,634,687	15,634,086	-	-	-	-	-	601	-	-	-	-	-	-
Letters of credit	2,399,154	-	2,399,154	2,396,804	-	-	-	-	-	2,350	-	-	-	-	-	-
Savings accounts and debit cards	3,953,867	(18,686)	3,972,553	3,900,217	-	-	-	-	-	72,336	-	-	-	-	-	-
Fiduciary and management services	6,892,536	(60,730)	6,953,266	-	1,194,878	-	-	-	883,142	-	-	-	4,875,246	-	-	-
Others	7,037,579	(105,000)	7,142,579	6,652,507	-	-	-	-	-	180,566	-	-	309,506	-	-	-
Total commission income	35,917,823	(184,416)	36,102,239	28,583,614	1,194,878	-	-	-	883,142	255,853	-	-	5,184,752	-	-	-
Commissions expense																
Commission expense	8,841,073	(239,157)	9,080,230	8,974,642	21,250	-	-	-	37,134	45,950	-	-	-	-	-	1,254
Net commission income	27,076,750	54,741	27,022,009	19,608,972	1,173,628	-	-	-	846,008	209,903	-	-	5,184,752	-	-	(1,254)
Net interest and commission income, before allowance	137,909,628	175,400	137,734,228	118,030,352	1,206,942	-	21,905	15,033	1,150,920	10,020,162	-	1,225,474	5,735,065	-	(8,379)	336,754
Allowance for bad loans	(9,095,331)	-	(9,095,331)	(9,095,331)	-	-	-	-	-	-	-	-	-	-	-	-
Net interest and commission income, after allowance	128,814,297	175,400	128,638,897	108,935,021	1,206,942	-	21,905	15,033	1,150,920	10,020,162	-	1,225,474	5,735,065	-	(8,379)	336,754
Other income																
Gain on sale and redemption of securities	1,881,726	-	1,881,726	1,689,642	-	-	-	-	173,510	18,574	-	-	-	-	-	-
Net gain (loss) on financial instruments	38,276	-	38,276	(360,106)	-	-	-	-	-	398,382	-	-	-	-	-	-
Insurance premiums, net	6,312,791	(477,360)	6,790,151	-	-	-	-	-	-	-	-	6,790,151	-	-	-	-
Fiduciary and brokerage services	106,687	-	106,687	-	64,481	-	-	-	42,206	-	-	-	-	-	-	-
Other loss (income)	(92,208)	(47,466,385)	47,374,177	43,726,747	-	237,930	4	88	-	1,903,773	937,922	240,865	301,798	-	-	25,050
Total other loss (income), net	8,247,272	(47,943,745)	56,191,017	45,056,283	64,481	237,930	4	88	215,716	2,320,729	937,922	7,031,016	301,798	-	-	25,050
Total income, net	137,061,569	(47,768,345)	184,829,914	153,991,304	1,271,423	237,930	21,909	15,121	1,366,636	12,340,891	937,922	8,256,490	6,036,863	-	(8,379)	361,804
Other expenses																
Salaries and wages	35,931,393	-	35,931,393	33,544,315	-	65,734	-	-	6,000	-	-	927,969	1,387,375	-	-	-
Professional fees	3,820,185	(137,118)	3,957,303	3,495,321	62,973	8,008	2,360	1,445	55,177	84,893	800	98,984	147,142	200	-	-
Depreciation and amortization	8,748,113	-	8,748,113	8,637,480	-	-	-	-	-	3	15,427	18,356	74,680	-	2,167	-
Amortization of intangible assets	188,755	-	188,755	132,937	-	-	-	-	-	-	-	-	55,818	-	-	-
Marketing and advertising	2,202,206	-	2,202,206	2,046,744	1,607	-	-	-	1,530	-	-	11,370	140,955	-	-	-
Maintenance and repairs	7,030,170	-	7,030,170	6,819,381	22,500	104	-	-	20,388	-	-	100,313	64,557	2,927	-	-
Leases	3,714,115	(62,076)	3,776,191	3,773,553	-	-	-	-	-	-	-	2,638	-	-	-	-
Other taxes	3,564,929	-	3,564,929	2,764,938	35,414	22,287	14,137	-	89,640	20,296	77,053	458,996	73,637	3,272	-	5,259
Communications and correspondence	1,233,208	-	1,233,208	1,191,437	-	-	-	-	-	-	-	-	41,771	-	-	-
Supplies and stationery	585,225	-	585,225	554,999	-	-	-	-	-	-	-	2,512	27,714	-	-	-
Insurance	261,771	(364,604)	626,375	580,240	-	-	-	-	15,535	-	-	-	30,600	-	-	-
Surveillance	1,514,443	-	1,514,443	1,514,443	-	-	-	-	-	-	-	-	-	-	-	-
Others	10,310,544	(531,811)	10,842,355	9,637,378	121,892	41,622	-	93	181,661	201,380	-	310,719	286,254	-	572	60,784
Total other expenses	79,105,057	(1,095,609)	80,200,666	74,693,166	244,386	137,755	16,497	1,538	369,931	306,572	93,280	1,931,857	2,330,503	6,399	2,739	66,043
Profit before income tax	57,956,512	(46,672,736)	104,629,248	79,298,138	1,027,037	100,175	5,412	13,583	996,705	12,034,319	844,642	6,324,633	3,706,360	(6,399)	(11,118)	295,761
Income tax:																
Current	6,664,998	-	6,664,998	4,306,611	250,024	25,055	-	-	110,185	11,978	11,298	1,114,303	835,544	-	-	-
Deferred	(1,646,980)	-	(1,646,980)	(1,646,980)	-	-	-	-	-	-	-	-	-	-	-	-
Income tax, net	5,018,018	-	5,018,018	2,659,631	250,024	25,055	-	-	110,185	11,978	11,298	1,114,303	835,544	-	-	-
Net income	52,938,494	(46,672,736)	99,611,230	76,638,507	777,013	75,120	5,412	13,583	886,520	12,022,341	833,344	5,210,330	2,870,816	(6,399)	(11,118)	295,761
Retained earnings (accumulated deficit) at the beginning of the period	360,923,961	4,948,310	355,975,651	224,163,333	1,121,114	766,459	898,242	6,516,770	8,175,816	104,564,491	71,453	5,316,137	4,518,439	(154,004)	-	17,401
Dynamic reserve	(825,238)	-	(825,238)	-	-	-	-	-	-	-	-	(825,238)	-	-	-	-
Dividends paid - common shares	(17,363,031)	44,794,802	(62,157,833)	(16,887,788)	-	-	-	-	-	(40,000,000)	-	(5,000,000)	-	-	-	(270,045)
Adjustmennt for inclusion of subsidiary	(24,845)	-	(24,845)	-	-	-	-	-	-	-	-	-	-	-	(24,845)	-
Complementary tax	(1,218,793)	-	(1,218,793)	(959,557)	(20,384)	(1,562)	(513)	-	(35,480)	-	(2,252)	(84,611)	(114,434)	-	-	-
Retained earnings (accumulated deficit) at the end of the period	394,430,548	3,070,376	391,360,172	282,954,495	1,877,743	840,017	903,141	6,530,353	9,026,856	76,586,832	902,545	4,616,618	7,274,821	(160,403)	(35,963)	43,117