Global Bank Corporation and Subsidiaries

Consolidated financial statements for the period ended
September 30, 2017

Global Bank Corporation and Subsidiaries

Consolidated Financial Statements
At September 30, 2017

Contents	**Page**

Global Bank Corporation y Subsidiarias

Consolidated Statement of financial position
September 30, 2017
(In balboas)

	Notes	2017	2016
Assets			
Cash and cash equivalents	7,16	462,330,055	459,173,555
Time deposits with original maturities greater than 90 days	7	1,605,000	3,450,000
Securities purchased under resale agreements	6,8	3,030,044	3,044,786
Securities available for sale	6,9,16	458,741,295	447,989,814
Securities held to maturity	10	309,743,645	83,769,081
Loans	6,11,17 b	5,004,155,486	4,793,526,921
Property, furniture, equipment and improvements	12	144,607,391	109,416,706
Other assets	6,13,28	214,562,313	184,233,968
Total assets		6,598,775,229	6,084,604,831
Liabilities and Shareholders' Equity			
Liabilities			
Client deposits	15	3,369,568,497	3,319,592,164
Bank deposits		133,313,652	157,844,822
Securities sold under repurchase agreements	14	80,000,000	54,270,938
Obligations with financial institutions	9, 10, 13,16	694,621,023	664,981,894
Negotiable trade securities	17 a	27,357,000	24,000,000
Corporate bonds	11,17 b	1,401,497,242	1,067,345,736
Subordinated bonds	17 c	17,329,950	17,419,515
Perpetual bonds	17 d	113,695,589	102,823,979
Other liabilities	6,18,19	172,408,205	143,847,997
Total liabilities		6,009,791,158	5,552,127,045
Shareholders' Equity			
Common shares	20	100,665,305	98,202,657
Excess paid-in capital		2,441,864	2,253,344
Capital reserve		43,861,773	39,936,225
Regulatory reserve	32	73,535,597	67,587,387
Retained earnings		368,479,532	324,498,173
Total Shareholders' Equity		588,984,071	532,477,786
Total liabilities and shareholders' equity		6,598,775,229	6,084,604,831

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 September 30, 2017
(In balboas)

	Notes	2017	2016
Interest income		90,945,487	83,212,482
Interest expense		(53,462,067)	(44,315,135)
Net interest income	21	37,483,420	38,897,347
Earned commissions		11,915,491	15,739,255
Commision expense		(2,851,211)	(2,660,962)
Net commission income	21	9,064,280	13,078,293
Net income from interest and commissions	21	46,547,700	51,975,640
Other income	22	1,935,099	851,909
		48,482,799	52,827,549
Other expenses			
Impairment allowance	11	2,567,527	3,750,182
Salaries and wages	6	11,919,452	12,198,609
Professional fees		1,329,447	1,455,484
Depreciation and amortization	12	2,999,716	2,418,626
Amortization of intangible assets	13	62,918	62,783
Marketing and advertising		675,385	646,535
Maintenance and repairs		2,974,011	2,261,402
Leases	25	1,301,165	1,096,329
Other taxes		1,101,036	1,175,651
Others	23	5,243,875	4,762,650
		30,174,532	29,828,251
Profit before income tax		18,308,267	22,999,298
Income tax:	29		
Current		2,105,452	2,759,916
Deferred		(737,980)	(778,953)
Income tax		1,367,472	1,980,963
PROFIT FOR THE PERIOD		16,940,795	21,018,335

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 September 30, 2017
(In balboas)

	Notes	2017	2016
Profit for the period		16,940,795	21,018,335
Other comprehensive income:			
Items which can be later reclassified to profit or loss:			
Net amount transferred to profit or loss	9	55,124	300,025
Net changes in securities available for sale	9	2,301,200	4,060,374
Other comprehensive income for the period		2,356,324	4,360,399
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		19,297,119	25,378,734

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 September 30, 2017
(In balboas)

	Notes	Total	Common shares	Excess paid-in capital	Capital reserve	Regulatory reserve	Retained earnings
Balance as of June 30, 2016		511,870,633	98,202,657	2,131,214	35,575,826	67,394,812	308,566,124
Profit for the period		21,018,335	-	-	-	-	21,018,335
Net changes in securities available for sale		4,360,399	-	-	4,360,399	-	-
Total comprehensive income for the period		25,378,734	-	-	4,360,399	-	21,018,335
Excess paid-in-capital - share option plan for employees	24	122,130	-	122,130	-	-	-
Dividends paid - common shares	20	(4,710,536)	-	-	-	-	(4,710,536)
Complementary tax		(183,175)	-	-	-	-	(183,175)
Regulatory reserve	32	-	-	-	-	192,575	(192,575)
Balance at September 30, 2016		532,477,786	98,202,657	2,253,344	39,936,225	67,587,387	324,498,173
Balance as of June 30, 2017		576,531,435	98,202,657	2,619,734	41,505,449	73,279,634	360,923,961
Profit for the period		16,940,795	-	-	-	-	16,940,795
Net changes in securities available for sale		2,356,324	-	-	2,356,324	-	-
Total comprehensive income for the period		19,297,119	-	-	2,356,324	-	16,940,795
Excess paid-in-capital - share option plan for employees	24	(177,870)	-	(177,870)	-	-	-
Issuance of common stock		2,462,648	2,462,648	-	-	-	-
Dividends paid - common shares	20	(7,292,635)	-	-	-	-	(7,292,635)
Complementary tax		(1,207,968)	-	-	-	-	(1,207,968)
Regulatory reserve	32	-	-	-	-	255,963	(255,963)
Adjustment product of the previous year		(628,658)	-	-	-	-	(628,658)
Balance at September 30, 2017		588,984,071	100,665,305	2,441,864	43,861,773	73,535,597	368,479,532

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 September 30, 2017
(In balboas)

	Notes	2017	2016
Cash flows from operating activities			
Profit for the period		16,940,795	21,018,335
Adjustments for:			
Depreciation and amortization	12	2,999,716	2,418,626
Gain on sale of furniture and equipment	12	(1,357)	(1,914)
Gain on sale of securities available for sale	9	(55,124)	(300,025)
Impairment allowance	11	2,567,527	3,750,182
Income tax	29	1,367,472	1,980,963
Net interest and commission income	11, 21	(93,459,644)	(81,160,627)
Interest expenses	21	53,462,067	44,315,135
Excess paid-in capital - share option plan for employees	24	(177,870)	122,130
Adjustment product of the previous year		(628,658)	-
		(16,985,076)	(7,857,195)
Changes in:			
Time deposits over 90 days		(635,000)	(1,000,000)
Securities purchased under resale agreements	8	5,924	3,021,560
Loans	11	70,232,594	(97,017,244)
Other assets		13,562,612	19,813,078
Restricted time deposits	7	8,188,158	6,791,182
Demand deposits and savings accounts		(18,750,672)	(27,723,967)
Time deposits		(15,909,165)	(8,346,039)
Bank deposits		(37,541,586)	9,359,291
Other liabilities		(3,414,455)	2,924,278
Allowance for seniority premiums		72,121	119,784
Cash used in operations		(1,174,545)	(99,915,272)
Income tax paid		(7,159,485)	(9,403,934)
Interest received		72,046,861	81,748,576
Interest paid		(32,850,229)	(32,302,997)
Net cash flow used in operating activities		30,862,602	(59,873,627)
Cash flows from investing activities			
Purchase of securities available for sale	9	(89,292,671)	(39,010,293)
Sale of securities available for sale	9	82,510,520	69,639,747
Purchase of securities held to maturity	10	(26,358,935)	-
Sale and redemption of securities held to maturity		499,201	125,650
Purchase of property, furniture and equipment	12	(8,767,942)	(7,695,586)
Proceeds from sale of furniture and equipment	12	2,601	26,350
Net cash flows used in investing activities		(41,407,226)	23,085,868
Cash flows from financing activities			
Payments made for transactions related to repurchase agreements	14	50,000,000	-
Proceeds from securities sold under repurchase agreements	14	-	20,345,972
Obligations with financial institutions received	16	297,270,369	276,162,561
Obligations with financial institutions paid	16	(284,443,736)	(265,999,047)
Proceeds from the issuance of negotiable trade securities	17 a	27,357,000	9,586,000
Redemption of egotiable trade securities	17 a	(28,500,000)	-
Proceeds from issuance of corporate bonds	17 b,c	(45,350,578)	(5,827,344)
Dividends paid - common shares	20	(7,292,635)	(4,710,536)
Proceeds from issuance of common shares		2,462,648	-
Complementary tax		(1,207,968)	(183,175)
Net cash flows provided by financing activities		10,295,100	29,374,431
Net decrease in cash and cash equivalents		(249,524)	(7,413,328)
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	440,098,080	452,228,522

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 main activity of the Bank and Subsidiaries are described in Note 31.

2. Application of International Financial Reporting Standards (IFRSs)

2.1 Mandatorily effective for this period

There were no IFRSs or IFRIC interpretations, effective for the year beginning on or after January 1, 2017, which 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 hereinafter and have not been applied in the preparation of these consolidated financial statements. With the exception of IFRS 9 - *Financial Instruments: Classification and Measurement*, IFRS 15 - *Revenue from Contracts with Customers* and IFRS 16 - *Leases*, is not expected that none of these new standards, amendments or interpretations will have a significant effect on the financial statements. However, it is not practical to provide a reasonable estimate of their effect until a detailed review has not been completed. Below is a summary of the new CIFRS standards or interpretations or amendments to the standards issued, but not yet effective.

IFRS 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 regards 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.

IFRS 15 - Revenue from Contracts with Customers

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 up to the effective date.

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 such 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 recognizes a revenue 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 an entity to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes in cash as well as those not involving 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 must assess whether future taxable profits will be available with which it can utilize a deductible temporary difference.

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

Amendments to CNIFF 23 – Uncertainty over Income Tax Treatments

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

The interpretation requires that the entity:

a. Determines whether uncertain tax positions are valued separately or as a group; and
b. Values if it is likely that the tax authority will accept an uncertain tax treatment used or proposed to be used, by an entity in its income tax returns:
    - If yes, the entity must determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax returns.
    - If not, the entity should 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 relate to the following areas:

a. Accounting for cash-settled share-based payment transactions that include a performance condition;
b. Classification of share-based payment transactions with net settlement characteristics for tax withholding obligations; and
c. Modification of share-based payment transactions from cash-settled to equity-settled.

Effective for annual reporting periods beginning on or after January 1, 2018 with earlier application permitted. Specific transition determinations apply.

IFRS 17 – Insurance Contracts

- IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 – Insurance Contracts.

- The 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 are 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, timing and uncertainty of future cash flows and will explicitly measure the cost of that uncertainty; Takes into account market interest rates and the impact of policyholders' choices and guarantees.

- Income from the sale of insurance policies is deferred in a separate liability component on day 1 and aggregated into groups of insurance contracts; it is then systematically reported through profit or loss for the period in which insurers provide coverage after making adjustments arising from changes in assumptions related to future coverage.

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

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

3. Most significant accounting policies

3.1 Compliance statement

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

3.2 Basis of preparation

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 to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of 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 those of the Bank and of 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 period 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 were eliminated in the 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 collateral financing transactions in which securities are taken at a discount of the market value and agreed to be resold to the debtor at a future date and at a specified price. The difference between the purchase price and the future sale price is recognized as income under the effective interest rate method.

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

The market value of these investments is monitored, and an additional guarantee is obtained when appropriate to protect them 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 the financial assets are derecognized or an 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 listed market price at the date of the consolidated statement of financial position. If the listed market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flows techniques.

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 listed 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, 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 do 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 leases

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 carries out transactions by which recognized assets are transferred in their consolidated financial position, but retains all or substantially all the risks and rewards of the transferred assets or a portion thereof. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and repurchase and sale transactions.

In transactions in which neither the asset is retained nor substantially transferred to all the risks and rewards inherent in the ownership of a financial asset and retains control of the asset, the asset continues to be recognized to the extent of its continued involvement, determined by the degree in Which is exposed to changes in the value of the asset transferred.

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

3.7 Financial liabilities and equity instruments issued

Client deposits

These instruments are the result of the resources that the Bank receives and these are measured initially 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, which is determined by application of 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. Subsequent to 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 at the date of the consolidated statement of financial position. These estimates are determined based on the experience of similar transactions and history of past losses, supplemented by Management's judgment.

Financings

Financings are recognized initially at fair value net of transaction costs incurred. Subsequently, financings are recognized at amortized cost; any difference between the net proceeds of the transaction costs and the redemption value is recognized in the consolidated statement of profit or loss during the borrowing period using the effective interest method. Those financings whose interest rate risks are 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 period in which they were approved by the Board of Directors.

3.8 Offsetting 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 Income and interest expense

Interest income and expense 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 transactions at medium and long term, net of certain direct costs from granting them, are deferred and amortized during their period term.

3.11 Impairment of financial statements

<u>*Loans*</u>

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 objective evidence that a financial asset or group of financial assets is impaired includes 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 through the use of 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.

Impairment losses in a group of loans that are collectively evaluated to determine if impairment exists are estimated according to 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 suggested inherent historical losses.

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 gains or losses on equity instruments are not reversed through the consolidated statement of profit or loss, but 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 related 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 Lease receivables

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, based on the interest 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

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

Management considers prudent to maintain an allowance to recognize the risks associated with the devaluation 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 Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. The Group 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 different from goodwill

At each consolidated statement of financial position date, 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 at September 30, 2017, Management had not identified impairment loss of its non-financial assets.

3.19 Employee benefits

Severance liabilities

Panamanian labor law requires that employers constituted a severance fund to guarantee payment of seniority premiums and indemnity in cases of unjustified dismissals or 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 expense in the results of operations. The severance fund is maintained in a private trust and it is managed by an entity independent of the Bank and subsidiaries.

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, the 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 1 dated January 5, 1984 amended by the Executive Decree 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 subsidiary.

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

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

3.21 Income tax

Income taxes include the current period tax and deferred tax. Income tax is recognized in the results of operations of the current period. The current income tax refers to the estimated income tax payable over taxable income of the fiscal period, 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 Group 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 period 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' administration 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 arrangement, 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 Hedging 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 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 Group designates certain derivate as either:

- Hedges of the 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 expires or is sold or executed; el 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 Banks with original maturities of 90 days or less.

4. Financial risk management

4.1 Objectives of financial risk management

The activities of the Bank are exposed to several of financial risks and those activities include the analysis, evaluation, acceptance and administration of certain degree of risks or combination of risks. Taking risks is core 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 National Securities Commission 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, described below:

4.2 Credit risk and counterparty

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 securities.

For purposes of risk management, the Bank considers and consolidates all the elements of exposure of credit risk, debtor risk, country risk and sector 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 frequently assessed, 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.

Credit quality analysis

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

	2017	**2016**
Deposits in banks		
Grade 1: Normal	427,451,623	432,263,418
Loans		
Grade 1: Normal	4,872,856,579	4,693,542,362
Grade 2: Special mention	104,945,109	110,856,214
Grade 3: Subnormal	19,081,508	14,350,275
Grade 4: Doubtful	19,434,496	10,757,507
Grade 5: Uncollectible	50,650,482	26,939,266
Unearned discounted interest	(16,709,549)	(21,076,436)
Gross amount	5,050,258,625	4,835,369,188
Provision for individual and collective impairment	(46,103,139)	(41,842,267)
Carrying amount, net	5,004,155,486	4,793,526,921
In arrears but not impaired		
31 to 60 days	39,411,423	26,867,466
Sub-total	39,411,423	26,867,466
Individually impaired loans		
Grade 2: Special mention	97,928,251	105,291,733
Grade 3: Subnormal	15,571,234	11,315,527
Grade 4: Doubtful	15,274,075	6,778,246
Grade 5: Uncollectible	29,881,273	12,997,825
Sub-total	158,654,833	136,383,331
Provision for impairment of loans		
Individual	(35,456,762)	(26,519,931)
Collective	(10,646,377)	(15,322,336)
Total provision for impairment	(46,103,139)	(41,842,267)
Off balance operations		
Grade 1: Normal		
Letters of credit	55,000,940	71,714,232
Endorsements and guarantees	468,478,340	369,889,812
Promissory notes	342,276,447	440,631,559
Credit lines granted but not used	210,830,627	254,649,069
	1,076,586,354	1,136,884,672
Securities purchased under resale agreements		
Grade 1: Normal	3,030,044	3,044,786
Securities of investments availale for sale		
Grade 1: Normal	458,741,295	447,989,814
Securities held to maturity		
Grade 1: Normal	309,743,645	83,769,081

Below is the aging of the loan portfolio:

2017

	Global Bank Corporation	Subsidiaries	Total
Current	4,735,897,483	192,851,018	4,928,748,501
from 31 to 90 days	49,143,144	-	49,143,144
Over 90 days (capital or interest)	70,624,748	-	70,624,748
Over 30 days past due (maturity capital)	18,451,781	-	18,451,781
Total	4,874,117,156	192,851,018	5,066,968,174

2016

	Global Bank Corporation	Subsidiaries	Total
Current	4,523,690,989	245,854,147	4,769,545,136
From 31 to 90 days	34,925,229	-	34,925,229
Over 90 days (capital or interest)	41,897,734	-	41,897,734
Over 30 days past due (maturity capital)	10,077,525	-	10,077,525
Total	4,610,591,477	245,854,147	4,856,445,624

2. Analysis by type of loan portfolio

2017	Consumer				Corporate		
	Individuals	Credit cards	Vehicles	Mortage	Commercial	Overdrafts	Total loans
Individual impairment:							
Special mention	8,353,647	3,288,945	622,266	25,419,301	67,260,925	25	104,945,109
Subnormal	2,647,950	1,637,794	1,307,958	10,012,709	2,729,704	745,393	19,081,508
Doubtful	1,438,847	1,376,668	359,495	2,874,314	13,342,534	42,638	19,434,496
Uncollectible	7,630,491	3,429,692	1,489,022	4,520,537	32,820,648	760,092	50,650,482
Gross amount	20,070,935	9,733,099	3,778,741	42,826,861	116,153,811	1,548,148	194,111,595
Impairment allowance	(7,832,612)	(6,004,899)	(1,125,895)	(2,341,718)	(17,031,536)	(1,120,102)	(35,456,762)
Carrying value	12,238,323	3,728,200	2,652,846	40,485,143	99,122,275	428,046	158,654,833
Not deliquent without impairment / carrying value	482,073,877	80,507,586	260,933,141	1,017,348,362	2,871,784,084	160,209,529	4,872,856,579
	494,312,200	84,235,786	263,585,987	1,057,833,505	2,970,906,359	160,637,575	5,031,511,412
Less:							
Provision for collective impairment							(10,646,377)
Unearned interest and commissions							(16,709,549)
Total carrying amount							5,004,155,486
Guarantees	212,486,275	4,076,338	381,439,878	1,446,155,757	4,817,300,262	201,818,409	7,063,276,919
Renegotiations:							
Gross amount	4,900,935	-	50,274	15,390,515	57,565,807	-	77,907,531
Impairment allowance	(1,295,120)	-	(29,345)	(225,879)	(8,348,406)	-	(9,898,750)
Net amount	3,605,815	-	20,929	15,164,636	49,217,401	-	68,008,781

2016	Consumer				Corporate		
	Individuals	Credit cards	Vehicles	Mortage	Commercial	Overdrafts	Total loans
Individual impairment:							
Special mention	7,529,996	2,119,011	243,531	17,344,613	74,672,449	8,946,614	110,856,214
Subnormal	2,245,082	1,108,562	662,921	5,621,155	3,585,136	1,127,419	14,350,275
Doubtful	1,676,421	733,878	364,974	2,772,680	4,602,548	607,006	10,757,507
Uncollectible	5,194,670	2,589,022	778,083	3,446,615	12,842,320	2,088,556	26,939,266
Gross amount	16,646,169	6,550,473	2,049,509	29,185,063	95,702,453	12,769,595	162,903,262
Individual impairment allowance	(7,431,543)	(4,147,884)	(614,969)	(1,737,567)	(9,548,830)	(3,039,138)	(26,519,931)
Carrying value	9,214,626	2,402,589	1,434,540	27,447,496	86,153,623	9,730,457	136,383,331
Not delinquent without impairment / carrying value	471,405,602	67,961,906	252,508,396	891,002,292	2,895,018,672	115,645,494	4,693,542,362
	480,620,228	70,364,495	253,942,936	918,449,788	2,981,172,295	125,375,951	4,829,925,693
Less:							
Collective impairment allowance							(15,322,336)
Unearned interest and commissions							(21,076,436)
Total carrying amount							4,793,526,921
Guarantees	197,528,508	4,249,158	371,283,743	1,270,471,473	4,763,543,857	168,110,126	6,775,186,865
Renegotiations							
Gross amount	5,370,960	-	109,350	11,989,286	17,120,091	-	34,589,687
Impairment allowance	(380,423)	-	(17,965)	(33,521)	(1,425,776)	-	(1,857,685)
Net amount	4,990,537	-	91,385	11,955,765	15,694,315	-	32,732,002

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

	2017	2016
Current	4,928,748,501	4,769,545,136
Delinquent	49,143,144	34,925,229
Overdue	89,076,529	51,975,259
Total	5,066,968,174	4,856,445,624

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:

2017	**Securities available for sale**	**Securities held to maturity**	**Securities purchased under resale agreement**	**Total**
With investment grade	93,146,391	283,476,558	-	376,622,949
Standard monitoring	119,882,771	26,267,087	-	146,149,858
Without grade	245,712,133	-	3,030,044	248,742,177
Total	458,741,295	309,743,645	3,030,044	771,514,984

2016	**Securities available for sale**	**Securities held to maturity**	**Securities purchased under resale agreement**	**Total**
With investment grade	82,460,138	68,790,976	-	151,251,114
Standard monitoring	135,051,760	14,978,105	-	150,029,865
Default	1,000,000	-	-	1,000,000
Without grade	229,477,916	-	3,044,786	232,522,702
Total	447,989,814	83,769,081	3,044,786	534,803,681

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		
2017	**Personal**	**Credit cards**	**Vehicles**	**Mortgage**	**Commercial**	**Overdraft**	**Total loans**
Loan balance	502,144,812	90,240,685	264,711,882	1,060,175,221	2,987,937,896	161,757,678	5,066,968,174
Guarantees	212,486,275	4,076,338	381,439,878	1,446,155,757	4,817,300,262	201,818,409	7,063,276,919
Exposure % subject to guarantee requirements	42%	5%	144%	136%	161%	125%	139%

	Consumer				Corporate		
2016	**Personal**	**Credit cards**	**Vehicles**	**Mortgage**	**Commercial**	**Overdraft**	**Total loans**
Loan balance	488,051,772	74,512,379	254,557,906	920,187,354	2,990,721,124	128,415,089	4,856,445,624
Guarantees	197,528,508	4,249,158	371,283,743	1,270,471,473	4,763,543,857	168,110,126	6,775,186,865
Exposure % subject to guarantee requirements	40%	6%	146%	138%	159%	131%	140%

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.

	2017	**2016**
Residential mortgage loans:		
Less than 50%	66,242,824	60,774,291
51% - 70%	187,029,890	168,091,898
71% - 90%	529,305,148	478,711,606
More than 90%	277,597,359	212,609,559
Total	1,060,175,221	920,187,354

Time deposits placed in banks

Time deposits are held in banks for B/.319,746,180 (2016: B/.305,711,362). Time deposits in banks are held in local and foreign financial institutions. These institutions have local and/or international ratings, mostly with an international investment grade of at least BBB- according to Fitch Ratings or Standard and Poor’s, or Baa3 by Moody’s.

Concentration of credit risk

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:

	2017		
	Deposits in banks	**Loans**	**Investments**
Concentration by sector:			
Corporate	362,207,192	3,134,901,497	-
Consumer	-	1,927,689,446	-
Government	65,244,431	-	157,552,231
Other sectors	-	4,377,231	613,962,753
	427,451,623	5,066,968,174	771,514,984
Geographical concentration:			
Panama	185,264,095	4,817,044,679	340,707,419
Latin America and Caribbean	25,019,944	224,417,054	341,700,883
Europe, Asia and Oceania	35,494,128	24,656,441	45,976,541
United States of America and others	181,673,456	850,000	43,130,141
	427,451,623	5,066,968,174	771,514,984

	2016		
	Deposits in banks	**Loans**	**Investments**
Concentration by sector:			
Corporate	348,032,591	3,111,289,938	-
Consumer	-	1,736,092,692	-
Government	84,230,827	-	33,630,222
Other sectors	-	9,062,994	501,173,459
	432,263,418	4,856,445,624	534,803,681
Geographical concentration:			
Panama	228,237,693	4,571,543,004	266,545,463
Latin America and Caribbean	10,176,913	253,876,424	230,863,311
Europe, Asia and Oceania	101,208,798	30,176,196	19,860,046
United States of America and others	92,640,014	850,000	17,534,861
	432,263,418	4,856,445,624	534,803,681

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:

2017	**Carrying amount**	**Provisions**	**Net amount**
Normal	4,872,856,579	-	4,872,856,579
Special mention	104,945,109	7,016,859	97,928,250
Sub normal	19,081,508	3,510,273	15,571,235
Doubtful	19,434,496	4,160,421	15,274,075
Uncollectible	50,650,482	20,769,209	29,881,273
	5,066,968,174	35,456,762	5,031,511,412
Less:			
Provision for collective impairment	-	10,646,377	(10,646,377)
	5,066,968,174	46,103,139	5,020,865,035
Less: unearned interest and commissions			(16,709,549)
Total			5,004,155,486

2016	**Carrying amount**	**Provisions**	**Net amount**
Normal	4,693,542,362	-	4,693,542,362
Special mention	110,856,214	5,564,481	105,291,733
Sub normal	14,350,275	3,034,748	11,315,527
Doubtful	10,757,507	3,979,261	6,778,246
Uncollectible	26,939,266	13,941,441	12,997,825
	4,856,445,624	26,519,931	4,829,925,693
Less:			
Provision for collective impairment	-	15,322,336	(15,322,336)
	4,856,445,624	41,842,267	4,814,603,357
Less: unearned interest and commissions			(21,076,436)
Total			4,793,526,921

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).

The Panamanian Banking Regulation requires that the banks maintain a general license at all times with a minimum balance of liquid assets, as defined in Agreement 4-2008 of the Superintendency of Banks of Panama, no less than 30% of their deposits, but due to the severe liquidity policies to cover their operating liabilities, the liquidity of the Bank based on this standard at September 30, 2017 was 54.91% (2016: 39.88%).

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:

	2017	2016
At September 30	**54.91%**	**39.88%**
Average for the period	45.43%	38.06%
Maximum for the period	54.91%	40.37%
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:

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	3,502,882,149	3,518,653,881	2,161,171,205	732,944,435	505,733,494	118,804,747
Repurchase agreements	80,000,000	80,488,808	80,488,808	-	-	-
Obligations with financial institutions	694,621,023	727,905,996	557,693,993	125,636,601	24,959,162	19,616,240
Negotiable trade securities	27,357,000	27,980,644	27,980,644	-	-	-
Corporate bonds payable	1,401,497,242	1,573,154,961	147,067,877	705,980,763	720,106,321	-
Subordinated bonds	17,329,950	79,562,728	1,174,679	2,349,357	2,349,357	73,689,335
Perpetual bonds	113,695,589	523,782,557	7,733,222	15,466,443	15,466,443	485,116,449
	5,837,382,953	6,531,529,575	2,983,310,428	1,582,377,599	1,268,614,777	697,226,771

2016	Carrying value	Undiscounted cash flows	Up to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years
Deposits	3,477,436,986	3,493,141,452	2,259,077,248	546,949,540	482,848,975	204,265,689
Repurchase agreements	54,270,938	54,424,967	54,424,967	-	-	-
Obligations with financial institutions	664,981,894	690,188,840	472,149,599	186,679,115	19,747,106	11,613,020
Negotiable trade securities	24,000,000	24,592,292	24,592,292	-	-	-
Corporate bonds payable	1,067,345,736	1,160,684,612	62,590,462	545,746,889	552,347,261	-
Subordinated bonds	17,419,515	81,192,284	1,181,297	2,362,594	2,362,594	75,285,799
Perpetual bonds	102,823,979	481,420,880	7,004,372	14,008,744	14,008,744	446,399,020
	5,408,279,048	5,985,645,327	2,881,020,237	1,295,746,882	1,071,314,680	737,563,528

To manage liquidity risk arising from financial liabilities, the Bank maintains effective liquid assets such as: cash and equivalents and investments with investment grade for which there is an active market. These assets can be easily sold 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.

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	318,116,179	1,025,000	605,000	-	144,188,876	463,935,055
Securities purchased under resale agreement	1,000,003	2,030,041	-	-	-	3,030,044
Securities available for sale	94,834,741	5,502,420	197,285,607	150,311,692	10,806,835	458,741,295
Securities held to maturity	-	-	26,125,000	283,618,645	-	309,743,645
Loans	4,088,480,258	19,424,659	111,553,630	847,509,627	-	5,066,968,174
Total financial assets	4,502,431,181	27,982,120	335,569,237	1,281,439,964	154,995,711	6,302,418,213
Financial liabilities:						
Client deposits	1,448,356,889	492,764,894	1,123,024,822	21,259,888	417,475,656	3,502,882,149
Repurchase agreements	80,000,000	-	-	-	-	80,000,000
Obligations with financial institutions	694,621,023	-	-	-	-	694,621,023
Negotiable commercial securities	6,900,000	20,457,000	-	-	-	27,357,000
Corporate bonds	1,401,497,242	-	-	-	-	1,401,497,242
Subordinated bonds	-	-	-	17,329,950	-	17,329,950
Perpetual bonds	-	-	-	113,695,589	-	113,695,589
Total financial liabilities	3,631,375,154	513,221,894	1,123,024,822	152,285,427	417,475,656	5,837,382,953
Commitments and contingencies	-	-	-	-	1,076,586,354	1,076,586,354
Total interest rate sensitivity	871,056,027	(485,239,774)	(787,455,585)	1,129,154,537	(262,479,945)	465,035,260

2016	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	302,261,363	3,000,000	450,000	-	156,912,192	462,623,555
Securities purchased under resale agreement	2,000,005	1,044,781	-	-	-	3,044,786
Securities available for sale	59,044,355	-	156,570,357	224,824,108	7,550,994	447,989,814
Securities held to maturity	-	-	969,235	82,799,846	-	83,769,081
Loans	3,955,958,324	17,254,935	111,457,062	771,775,303	-	4,856,445,624
Total financial assets	4,319,264,047	21,299,716	269,446,654	1,079,399,257	164,463,186	5,853,872,860
Financial liabilities:						
Client deposits	1,580,271,968	469,160,708	987,747,823	27,120,073	413,136,414	3,477,436,986
Repurchase agreements	54,270,938	-	-	-	-	54,270,938
Obligations with financial institutions	597,900,655	67,081,239	-	-	-	664,981,894
Negotiable commercial securities	3,000,000	21,000,000	-	-	-	24,000,000
Corporate bonds	931,962,229	10,000,000	125,383,507	-	-	1,067,345,736
Subordinated bonds	-	-	-	17,419,515	-	17,419,515
Perpetual bonds	-	-	-	102,823,979	-	102,823,979
Total financial liabilities	3,167,405,790	567,241,947	1,113,131,330	147,363,567	413,136,414	5,408,279,048
Commitments and contingencies	-	-	-	-	1,136,884,672	1,136,884,672
Total interest rate sensitivity	1,151,858,257	(545,942,231)	(843,684,676)	932,035,690	(248,673,228)	445,593,812

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.

The analysis on a monthly basis by management 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 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:

2017	**Increase 100bps**	**Decrease 100bps**
Investment securities	(39,486,478)	42,539,770
Loans	(12,894,696)	13,818,205
Time deposits	33,707,214	(34,916,662)
Obligations with financial institutions	3,230,771	(3,325,648)
Negotiable trade securities	138,935	(140,152)
Corporate bonds	151,210	(153,713)
Subordinated bonds	6,404,392	(7,257,647)
Net impact	(8,748,652)	10,564,153

2016	**Increase 100bps**	**Decrease 100bps**
Investment securities	(25,864,208)	27,793,779
Loans	(12,407,423)	13,298,034
Time deposits	32,358,929	(33,500,547)
Obligations with financial institutions	4,647,736	(4,781,887)
Negotiable trade securities	203,410	(205,390)
Corporate bonds	2,307,204	(2,354,753)
Subordinated bonds	6,321,351	(7,194,126)
Net impact	7,566,999	(6,944,890)

4.5 Operational 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 operational risk.

The operational 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 an interruption.

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

The portfolio of insurance contracts is managed mainly under a strict underwriting policy based on the diversification and analysis of risk 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 Company's main risk is that current claims and payments of benefits to insured persons may exceed the present value of the accumulated liabilities arising from the frequency and/or severity of the events. To mitigate this, the Company adopts reasonable estimation policies and through evaluations assisted by statistical techniques and actuarial calculations.

4.7 Capital management

The Bank manages its capital to ensure:

- Compliance with the requirements set by the Superintendency of Banks of Panama and the Superintendency of 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 adequacy of capital and the use of regulatory capital are monitored by the Bank's management based on guidelines and techniques developed by the Superintendency of Banks of Panama. The information requirements are sent to the regulator on a quarterly basis.

As at September 30, 2017 and 2016, the Bank analyzes its regulatory capital by applying the standards of the Superintendency of Banks of Panama based on the new agreements such as Agreements 1-2015 of February 3, 2015 and Agreement 3-2016 of March 22, 2016, which modified Agreement 5-2008 of October 1, 2008, by which standards are established to determine the weighted assets per 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.

Based on regulatory scheme, 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 a result of any revaluation performed on the Bank's assets. As of September 30, 2017 and 2016, 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 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 that is composed as of September 30, 2017 and 2016 in the following manner:

	2017	2016
Primary capital (Tier 1)		
Paid share capital	100,665,305	98,202,657
Capital paid in excess	2,441,864	2,253,344
Declared reserves	38,572,314	37,501,371
Retained earnings	368,479,543	324,498,185
Other items of the comprehensive income	11,537,093	7,611,545
Other reserves authorized by the SBP	4,964	4,964
Dynamic reserve	67,282,999	62,405,732
Sub total	588,984,082	532,477,798
Less: Regulatory adjustments to the calculation of the ordinary primary capital		
Trade funds	(16,762,687)	(16,762,687)
Other intangible assets	(9,160,517)	(9,413,903)
Total primary capital fund	563,060,878	506,301,208
Perpetual bonds	113,695,589	102,823,979
Total additional primary capital fund	113,695,589	102,823,979
Subordinate debt	17,329,950	17,419,515
Total secondary capital fund	17,329,950	17,419,515
Total capital fund	694,086,417	626,544,702
Weighted asset based on risk		
Total risk weighted assets	4,897,413,902	4,589,075,359
Capital indexes		
Total regulatory capital expressed in percentage on weighted asset based on risk	14.17%	13.65%
Total Tier 1 expressed in percentage of weighted asset based on risk	13.82%	13.27%

5. Accounting estimations, 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 continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered to be 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 independent pricing sources to determine the fair value of the instruments, this control unit assesses and documents the evidence obtained from these third parties that support the conclusion that such valuations meet IFRS requirements. This review includes:

- Verifying that the pricing source 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 others 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 that are measured at fair value on a recurring basis

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

Financial assets/liabilities	Fair value 2017	Fair value 2016	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Ratio of unobservable input data at fair value
Shares issued by companies - domestic	2,239,719	1,587,863	Level 2	Observable market prices in non-active markets.	N/A	N/A
Shares issued by companies - domestic	147,616	1,121,220	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	910,546	-	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt titless - domestic	115,505,753	132,604,076	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt titless - domestic	119,210,163	83,441,849	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	166,842,385	171,506,749	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt titles - foreign	19,587,114	19,226,562	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
Private debt titles - foreign	-	1,000,000	Level 3	Bond prices in the non-liquid market.	N/A	N/A
Government debt titles - domestic	5,848,688	5,893,374	Level 1	Observable market prices in active markets.	N/A	N/A
Government debt titles - domestic	15,005,951	14,805,965	Level 2	Observable market prices in non-active markets.	N/A	N/A
Government debt titles - foreign	-	5,724,000	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	5,903,760	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
Private debt titles - domestic not quoted in the stock exchange	-	5,094,158	Level 3	Discounted flows.	The discount rate is the weighted average of the loans belonging to the issuer disbursed in the previous three months at the closing date.	The greater the discount rate, the less will be the fair value of the instrument.
Interest rate swaps – valor razonable	(5,273,246)	14,181,570	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	(6,017,784)	(5,494,081)	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	1,423,198,568	931,962,229	Level 2	The fair value is determined depending on the contracted hedge instrument.	N/A	N/A
Time deposits - domestic	204,192,944	212,619,538	Level 2	The fair value is determined depending on the contracted hedge instrument.	N/A	N/A
Totals	2,068,712,987	1,603,038,832				

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.

	2017	
	Available for sale	
	Equity effect	
	Favorable	(Unfavorable)
Fixed income instruments	6,601,969	(6,129,808)

	2016	
	Availale for sale	
	Equity effect	
	Favorable	(Unfavorable)
Fixed income instruments	5,838,992	(5,389,284)

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

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

	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and due from banks	144,188,875	144,188,875	156,912,193	156,912,193
Time deposits	319,746,180	319,746,180	305,711,362	305,711,362
Securities purchased under resale agreements	3,030,044	3,030,044	3,044,786	3,044,786
Loans	5,004,155,486	5,009,261,191	4,793,526,921	4,799,958,688
Total financial liabilities	5,471,120,585	5,476,226,290	5,259,195,262	5,265,627,029
Liabilities				
At sight deposits	417,475,656	417,475,656	413,136,414	413,136,414
Saving deposits	626,997,531	626,997,531	636,184,839	636,184,839
Time deposits	2,458,408,962	2,499,861,940	2,428,115,733	2,476,954,754
Securities sold under repurchase agreements	80,000,000	80,000,000	54,270,938	54,270,938
Obligations with financial institutions	694,621,023	696,513,803	664,981,894	665,645,302
Negotiable trade securities	27,357,000	27,499,172	24,000,000	24,123,656
Corporate bonds	10,000,000	10,000,000	135,383,507	136,066,750
Subordinated bonds	17,329,950	17,451,445	17,419,515	17,507,803
Perpetual bonds	113,695,589	114,810,000	102,823,979	104,028,000
Total financial liabilities	4,445,885,711	4,490,609,547	4,476,316,819	4,527,918,456

	Fair value hierarchy 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and due from banks	144,188,875	-	144,188,875	-
Time deposits	319,746,180	-	319,746,180	-
Securities purchased under resale agreements	3,030,044	-	3,030,044	-
Loans	5,009,261,191	-	-	5,009,261,191
Total financial liabilities	5,476,226,290	-	466,965,099	5,009,261,191
Liabilities				
At sight deposits	417,475,656	-	417,475,656	-
Saving deposits	626,997,531	-	626,997,531	-
Time deposits	2,499,861,940	-	2,499,861,940	-
Securities sold under repurchase agreements	80,000,000	-	80,000,000	-
Obligations with financial institutions	696,513,803	-	696,513,803	-
Negotiable trade securities	27,499,172	-	27,499,172	-
Corporate bonds	10,000,000	-	10,000,000	-
Subordinated bonds	17,451,445	-	17,065,445	386,000
Perpetual bonds	114,810,000	-	114,810,000	-
Total financial liabilities	4,490,609,547	-	4,490,223,547	386,000

	Fair value hierarchy 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and due from banks	156,912,193	-	156,912,193	-
Time deposits	305,711,362	-	305,711,362	-
Securities purchased under resale agreements	3,044,786	-	3,044,786	-
Loans	4,799,958,688	-	-	4,799,958,688
Total financial assets	5,265,627,029	-	465,668,341	4,799,958,688
Liabilities				
Demand deposits	413,136,414	-	413,136,414	-
Savings deposits	636,184,839	-	636,184,839	-
Time deposits	2,476,954,754	-	2,476,954,754	-
Repurchase agreements	54,270,938	-	54,270,938	-
Obligations with financial institutions	665,645,302	-	665,645,302	-
Negotiable trade securities	24,123,656	-	24,123,656	-
Corporate bonds	136,066,750	-	43,766,750	92,300,000
Subordinate bonds	17,507,803	-	17,507,803	-
Perpetual bonds	104,028,000	-	104,028,000	-
Total financial liabilities	4,527,918,456	-	4,435,618,456	92,300,000

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:

	2017	2016
Balance at beginning of the period	121,756,663	114,070,386
Reclassifications from Level 2 to 3	10,362,500	43,618,000
Reclassifications from Level 3 to 2	(23,465,930)	(31,923,000)
Net changes in securities	362,123	(447,114)
Redemptions	(426,091)	(30,716,807)
Balance at the end of the period	108,589,265	94,601,465

As of September 30, 2017, available for sale securities in Level 3 for B/.1,142,489 (2016: B/.1,295,313), have been recorded at cost. On the other hand, other Level 3 investments for B/.107,446,776 (2016: B/.93,306,152), are recorded at fair value.

As of September 30, 2017 and 2016, available for sale securities in Level 3 did not affect the Bank's results.

Total unrealized gain for securities available for sale classified as Level 3 as of September 30, 2017 is for B/.3,300,610 (2016: B/.1,161,546) and is in line of net changes in securities available for sale in the consolidated statement of financial position.

As of September 30, 2017 and 2016, reclassifications between Level 2 and Level 3 of investments in local corporate bonds, occurred due to the activity observed 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 below:

	2017	2016
Operations with related companies		
Consolidated statement of financial position		
Assets		
Securities available for sale	20,647,978	17,722,233
Securities purchased under resale agreements	3,000,019	3,000,013
Loans	69,254,303	45,449,145
Accrued interest receivable	421,860	348,896
Other assets	18,563,237	27,011,354
Liabilities		
Client deposits:		
At sight	26,666,887	11,868,991
Savings	6,722,335	4,744,799
Time	70,921,023	16,647,050
Accrued interest payable	130,160	32,676
Commitment and contingencies	10,122,000	18,022,000
Consolidated statement of profit or loss		
Income and expenses		
Interest and dividend income	890,711	772,341
Interest expense	711,130	225,109

	2017	2016
Ooperatioins with directors and key management personnel		
Consolidated statement of financial position		
Assets		
Loans	14,012,963	7,324,899
Accrued interest receivable	49,395	20,282
Liabilities		
Client deposits:		
At sight	3,486,432	1,682,496
Savings	10,433,020	6,391,479
Time	33,576,166	33,093,828
Accrued interest payable	282,146	278,656
Commitments and contingencies	1,521,500	2,520,000
Consolidated statement of profit and loss		
Income and expenses		
Interest income	156,952	95,517
Interest expense	365,924	352,720
Key management personnel benefits		
Salaries	879,471	893,291
Participation in net income	1,363,350	1,300,325
Excess paid-in-capital - share option plan for employees	(177,870)	122,130
Directors fees	106,000	86,500
	2,170,951	2,402,246

As of September 30, 2017, the collateral that guarantees loans to related parties amounted to B/.116,565,749 (2016: B/.84,013,828), which correspond to properties, securities and investments.

As of September 30, 2017, there are no loans with related parties with an impairment indicator. As of September 30, 2017, loans with related parties have a maturity date between October 2017 up to May 2047 and annual interest rates that range between 0.75% and 9% (2016: they have maturities between October 2016 up to October 2046 and annual interest rates that range between 0.75% and 9%).

7. Cash and cash equivalents

	2017	2016
Cash and cash equivalents	36,483,432	30,360,137
Demand deposits	107,705,443	126,552,056
Time deposits	319,746,180	305,711,362
Cash and cash equivalents for purposes of the consolidated statement of cash flows	463,935,055	462,623,555
Less:		
Restricted time deposits	(22,231,975)	(6,945,033)
Time deposits with original maturities over 90 days	(1,605,000)	(3,450,000)
Cash and cash equivalents for purposes of the consolidated statement of cash flows	440,098,080	452,228,522

8. Securities purchased under resale agreements

As of September 30, 2017, securities purchased under resale agreement for B/.3,030,044 (2016: B/.3,044,786) are secured by shares of local companies and private debt securities traded and maturing in February, April, August and September 2018 (2016: maturing on February, April and September 2017).

9. Securities available for sale

	2017	2016
Securities listed in the stock exchange		
Shares issued by companies - domestic	2,387,336	2,709,083
Shares issued by companies - foreign	910,546	-
Private debt securities - domestic	239,702,216	216,045,925
Private debt securities - foreign	186,429,499	191,733,311
Government debt securities - domestic	20,854,639	20,699,338
Government debt securities - foreign	-	5,903,760
Investment funds - foreign	1,960,000	1,860,000
	452,244,236	438,951,417
Securities not listed in the stock exchange		
Shares issued y companies - domestic	5,548,953	2,981,911
Private debt securities - domestic	-	6,056,486
Government debt securities - domestic	948,106	-
	6,497,059	9,038,397
	458,741,295	447,989,814

The net gain on embedded derivatives in securities available for sale as of September 30, 2017 is for B/.96,688 (2016: B/.165,313).

As of September 30, 2017 there are securities available for sale for B/.65,026,476 (2016: B/.155,112,773), securing borrowings received. See Note 16.

As of September 30, 2017, the Bank made sales and redemptions for B/.82,455,396 (2016: B/.69,339,722) and as a result a gain of B/.55,124 (2016: B/.300,025) was recorded, which is included in the consolidated statement of profit or loss.

10. Securities held to maturity

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Securities listed in the stock exchange:				
Private debt titles - domestic	3,055,428	3,167,910	3,039,378	3,142,500
Private debt titles - foreign	170,938,731	177,653,554	58,750,245	61,378,840
Government debt titles - domestic	65,180,696	67,411,139	11,968,556	12,418,806
Government debt titles - foreign	70,568,790	72,590,797	10,010,902	10,730,750
	309,743,645	320,823,400	83,769,081	87,670,896

As of September 30, 2017, the annual interest rate earned by securities held to maturity, range between 3.125% and 8.875% (2016: 4.00% and 7.125%).

As of September 30, 2017 there are securities held to maturity for B/.35,740,348 (2016: B/.66,199,964), which guarantee financings received. (See Note 16).

11. Loans

	2017			2016		
	Gross amount	Reserve for impairment	Net amount	Gross amount	Reserve for impairment	Net amount
Domestic:						
Consumer	811,293,216	(14,963,405)	796,329,811	769,993,628	(12,194,396)	757,799,232
Commercial	990,036,399	(7,074,223)	982,962,176	991,332,648	(1,771,462)	989,561,186
Agricultural	316,290,959	(2,708,064)	313,582,895	319,885,906	(1,274,411)	318,611,495
Pledge	107,981,067	-	107,981,067	115,742,027	-	115,742,027
Overdrafts	141,062,505	(1,120,101)	139,942,404	123,527,651	(3,039,137)	120,488,514
Mortage	1,060,175,221	(2,341,719)	1,057,833,502	920,187,354	(1,737,568)	918,449,786
Industrial	264,356,428	(549,591)	263,806,837	296,978,558	-	296,978,558
Construction	782,221,297	(1,340,484)	780,880,813	724,234,636	(2,981,566)	721,253,070
Financial leasings	44,823,594	(1,526,245)	43,297,349	48,366,570	(331,533)	48,035,037
Factoring	298,803,993	(3,819,996)	294,983,997	261,294,026	(2,447,367)	258,846,659
Total domestic	4,817,044,679	(35,443,828)	4,781,600,851	4,571,543,004	(25,777,440)	4,545,765,564
Foreign:						
Commercial	123,308,248	(12,934)	123,295,314	152,742,376	(83,669)	152,658,707
Agricultural	1,323,007	-	1,323,007	2,203,447	(658,822)	1,544,625
Industrials	42,003,863	-	42,003,863	49,231,343	-	49,231,343
Construction	44,593,182	-	44,593,182	57,813,299	-	57,813,299
Pledge	18,000,023	-	18,000,023	18,024,717	-	18,024,717
Overdrafts	20,695,172	-	20,695,172	4,887,438	-	4,887,438
Total foreign	249,923,495	(12,934)	249,910,561	284,902,620	(742,491)	284,160,129
	5,066,968,174	(35,456,762)	5,031,511,412	4,856,445,624	(26,519,931)	4,829,925,693
Less:						
Reserve for collective impairment			(10,646,377)			(15,322,336)
Unearned interest and commissions			(16,709,549)			(21,076,436)
Total			5,004,155,486			4,793,526,921

The corporate bonds issued in October 2012 is guaranteed by an Irrevocable Guarantee Trust composed by residential mortgage loans pledged as collateral whose balance as of September 30, 2017 amounted to B/.698,075,217 (2016: B/.664,567,355).

As of September 30, 2017 and 2016, the loans portfolio accrued interest rate from a range of 0.75% up to 24%.

The loan portfolio classified by type of interest is detailed below:

	2017	2016
Fixed rate	667,252,242	623,546,060
Adjustable rate	4,108,512,359	3,849,432,018
Floating rate (Libor or Prime)	291,203,573	383,467,546
	5,066,968,174	4,856,445,624

The movement of the allowance for impairment is summarized as follows:

	2017	2016
Balance at beginning of the period	42,973,346	38,848,585
Provision charged to expenses	2,567,527	3,750,182
Recoveries	654,919	417,999
Written-off loans	(92,653)	(1,174,499)
Balance at end of the period	46,103,139	41,842,267

Financial leases

The balance of finance leases, net and the maturity profile of minimum payments are summarized as follows:

	2017	2016
Minimum payments up to 1 year	2,019,981	2,637,114
Minimum payments from 1 to 5 years	42,803,612	45,729,456
Total minimum payments	44,823,593	48,366,570
Less: unearned interest	(5,170,997)	(5,871,361)
Total finance leases, net	39,652,596	42,495,209

The estimate of the value of the loan portfolio guarantees is detailed below:

	2017	2016
Movable property	813,453,712	815,587,851
Immovable property	5,899,728,111	5,578,548,361
Deposits in own Bank	219,928,152	229,973,517
Securities	86,817,259	125,790,141
Others	43,349,685	25,286,995
Total	7,063,276,919	6,775,186,865

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 September 30, 2017, renegotiated loans that would otherwise be past due or impaired make a total of B/.77,907,531 (2016: B/.34,589,687).

	2017	**2016**
Consumer:		
Personal loans	4,951,210	5,480,310
Mortgage loans	15,390,515	11,989,286
Corporate:		
Commercial loans	57,565,806	17,120,091
Total	77,907,531	34,589,687

12. Property, furniture, equipment and improvements

	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	59,815,280	21,232,556	58,546,030	2,753,700	8,469,472	47,064,554	202,348,534
Additions or purchase	-	-	121,223	74,836	80,000	10,073	8,481,810	8,767,942
Sales and disposals	-	-	(170,117)	(382,243)	-	-	-	(552,360)
At the end of the period	4,466,942	59,815,280	21,183,662	58,238,623	2,833,700	8,479,545	55,546,364	210,564,116
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	-	532,097	631,082	1,444,432	128,057	264,048	-	2,999,716
Sales and disposals	-	-	(168,963)	(382,153)	-	-	-	(551,116)
At the end of the period	-	13,178,860	12,190,510	35,127,444	2,005,231	3,454,680	-	65,956,725
Net balances	4,466,942	46,636,420	8,993,152	23,111,179	828,469	5,024,865	55,546,364	144,607,391

	2016							
	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	17,361,776	43,869,562	2,840,106	6,490,393	45,309,891	159,617,351
Additions or purchases	-	2,372,201	531,977	1,099,603	-	1,184,625	2,507,180	7,695,586
Sales and disposals	-	-	(62,656)	(451,733)	(66,996)	(347,197)	-	(928,582)
At the end of the period	4,466,942	41,650,882	17,831,097	44,517,432	2,773,110	7,327,821	47,817,071	166,384,355
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	-	382,783	494,037	1,308,572	141,127	92,107	-	2,418,626
Sales and disposals	-	-	(54,266)	(450,078)	(52,603)	(347,199)	-	(904,146)
At the end of the period	-	11,176,732	10,269,006	30,808,031	1,671,462	3,042,418	-	56,967,649
Net balances	4,466,942	30,474,150	7,562,091	13,709,401	1,101,648	4,285,403	47,817,071	109,416,706

13. Other assets

	2017	2016
Accrued interest receivable	43,277,792	38,788,112
Accounts receivable National Treasury	36,670,039	40,564,142
Accounts receivable related companies	18,378,854	15,631,419
Goodwill (a)	16,762,687	16,762,687
Hedge derivative	15,770,173	16,380,426
Prepaid expenses	13,341,581	3,061,963
Deferred income tax	11,269,812	10,157,465
Derivative instrument	10,234,378	-
Intangible assets (b)	9,160,517	9,413,903
Receivables	8,966,887	9,484,381
Guarantee deposits	8,171,620	2,164,443
Insurance premium receivables	5,372,166	6,043,641
Severance fund	4,862,128	4,232,506
Tax credit - agrarian subsidy	3,912,501	3,973,108
Items in transit	3,835,568	2,983,357
Claims to insurance companies	1,534,736	1,463,948
Judicial deposits	1,285,319	1,381,274
Others	864,578	437,093
Customer liabilities under acceptances	843,665	1,209,564
Foreclosed assets	47,312	100,536
	214,562,313	184,233,968

(a) Goodwill

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

Acquisition date	Company acquired	% of shares acquired	2017	2016
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 September 30, 2017 the consolidated statement of financial position holds an amount of intangible assets for B/.9,160,517 (2016: B/.9,413,903) of which B/.1,389,963 were incurred with the acquisition by Progreso, for the rights to manage the severance fund portfolio of HSBC Investment Corporation (Panamá), S.A., between Progreso and HSBC, which have an estimated life of 20 years. As a result of the acquisition of Progreso by Global Bank, intangible assets were generated in the amount of B/.8,454,809, of which B/.1,364,809 correspond to the brand with an indefinite life and B/.7,090,000 with an estimated life of the client portfolio of 40 years.

	2017	**2016**
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	(62,919)	(62,784)
	(684,255)	(430,869)
Net balance at end of the period	9,160,517	9,413,903

In order to check impairment in goodwill or other intangible assets, a valuation is periodically 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 September 30, 2017, no impairment losses were recognized in goodwill and intangibles. The valuation made by the method of discounted future net cash flows generated by the assets or businesses acquired indicates that the present value of these exceeds the amount of goodwill or intangible assets in books.

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

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

- To calculate the present value of future cash flows and determine the value of assets and businesses that are being evaluated, the discount rate was used as the estimated average capital cost of the Bank for the periods referred to, when the business unit assessed is the Bank; when flows of asset funds or units are discounted with a profile different 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 described above may change while economic and market conditions change. The Bank estimates that reasonably possible changes under these assumptions do not affect the recoverable amount of the business units or decreases below the carrying amount.

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

14. Securities sold under repurchase agreements

As of September 30, 2017, securities sold under repurchase agreements for B/.80,000,000 (2016: B/.54,270,938), are secured by investments, at an interest rate of 2.2128% and 2.82944% (2016: 1.68567% and 2.02444%), maturing in November and December 2017 (2016: October and December 2016).

15. Client deposits

2017	**Demand**	**Savings**	**Timed**
Economic segment			
Corporate	344,162,951	181,618,256	1,425,026,078
Personal	73,312,705	445,379,275	900,069,232
	417,475,656	626,997,531	2,325,095,310
Segment			
Domestic	370,640,840	573,158,058	2,159,238,575
Foreign	46,834,816	53,839,473	165,856,735
	417,475,656	626,997,531	2,325,095,310

2016	**Demand**	**Savings**	**Timed**
Economic segment			
Corporate	338,927,130	211,753,763	1,433,746,965
Personal	74,209,284	424,431,076	836,523,946
	413,136,414	636,184,839	2,270,270,911
Segment			
Domestic	365,755,317	568,567,374	2,095,049,303
Foreign	47,381,097	67,617,465	175,221,608
	413,136,414	636,184,839	2,270,270,911

16. Borrowed funds

	2017	2016
As of September 30, 2017, there are obligations with other banks to finance foreign trade, with several maturities up to September 2018 and annual interest rates between 1.6641% and 3.6459% and as at September 30, 2016 between 1.1049% and 3.3366%.	328,569,475	242,854,995
As of September 30, 2017, 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 3.0549% reviewed by semester and as at September 30, 2016 between 2.6254% and 1.475%.	67,806,834	169,198,013
As of September 30, 2017, there are obligations with international organizations for the management of long-term liquidity with renewable maturities between March 2019 and November 2022 and interest rates between 4.356% and 5.130% and as at September 30, 2016 between 4.0756% and 5.1300%.	106,160,497	67,146,074
As of September 30, 2017, there are obligations with foreign banks for working capital, with several maturities up to September 2020 and annual interest rates between 2.9986% and 3.80572% and as at September 30, 2016 between 2.73933% and 3.50220%.	175,584,217	157,782,812
As of September 30, 2017, there are obligations with a multilateral financial institution, with several installments and final maturities from September 2017 until May 2018, interest rates are between 2.8786% and 5.16%, reviewed by semester and as September 30, 2016 between 2.3947% and 4.8067%.	16,500,000	28,000,000
	694,621,023	664,981,894

As of September 30, 2017 there are securities available for sale for B/.65,026,476 (2016: B/.155,112,773) and securities held to maturity for B/.35,740,348 (2016: B/.66,199,964) guaranteeing these financings received. there are restricted time deposits as of September 30, 2017 for B/.22,181,975 (2016: B/.6,920,033), guaranteeing these financings. Sea Notes 7, 9 and 10.

The Bank has complied with the payments of principals and interest as well as the contractual clauses related to its obligations and positioning.

17. Issued financial debt

a) Marketable securities (VCNs in Spanish)

Interest is paid monthly. (VCNs) cannot be redeemed in advance by the Bank. These (VCNs) are backed up by general credit of the Bank.

Series	Issuance date	Interest rate	Maturity	2017
C-B	March 16, 2017	3.00%	Mar-18	5,000,000
C-C	May 17, 2017	2.25%	Nov-17	1,900,000
C-D	June 7, 2017	3.00%	Jun-18	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	1,457,000
				27,357,000

Series	Issuance date	Interest rate	Maturity	2016
B-W	March 21, 2016	2.50%	Mar-17	3,000,000
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
				24,000,000

b) Corporate bonds

Series	Interest rate	Maturity	2017	2016
Series D - Issuance of October 2008	5.250%	Feb-18	-	17,490,980
Series E - Issuance of October 2008	5.250%	Feb-18	-	14,492,526
Series A - Issuance of May 2011	6.000%	Feb-19	-	50,000,000
Series B - Issuance of May 2011	5.750%	Feb-18	-	19,700,000
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	4.561%	Apr-19	10,000,000	10,000,000
Series A - Issuance of October 2012	4.750%	Oct-17	83,751,452	297,570,157
Series A - Issuance of June 2014	4.567%	Nov-18	77,659,923	78,033,654
Series A - Issuance of October 2014	5.125%	Oct-19	548,691,267	556,358,419
Series A - Issuance of October 2016	4.500%	Oct-21	681,394,600	-
			1,401,497,242	1,067,345,736

Below are described the guarantees granted by the Bank for these issuances:

Issuance of October 2008 - Bond issue of October 2008, the Bonds are secured by the general credit of the Bank.

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

The bonds may be redeemed by the Bank, at its discretion, in a partial or total manner, as of the date determined for each series, which may not be less than 2 years from the respective date of issue

Issuance of October 2012 - Bond issue in October 2012, is guaranteed by a Guarantee Trust Irrevocable composed by an assignment in guarantee of residential mortgage loans granted. Such assignment includes any amount of principal, interest, costs, charges, expenses relating to such credits, including insurance policies that guarantee any payment for compensation related to such credits. Also, as guarantee of repayment, the tax credit benefits arising from the preferential mortgage portfolio are also assigned.

Issuance of June 2014 - The bonds from this issuance comprise direct, unconditional and non-guaranteed obligations.

Issuance of October 2014 - The bonds from this issuance comprise direct, unconditional and non-guaranteed obligations.

Issuance of October 2016 - The bonds from this issuance comprise direct, unconditional and non-guaranteed obligations.

The Bank entered into interest rate and exchange rate swaps on bonds, which qualify as fair value hedges. As of September 30, 2017, the net fair value of the hedged instrument attributable to the hedged risk of B/.11,504,106 (2016: B/.8,687,488). See Notes 13 and 19.

c) Subordinate bonds

For each of the series issued, one single equity payment will be made on the date of maturity of each series or until early redemption. Subordinate bonds do not hold guarantees or special privileges in terms of priority, and are only backed by the general credit of the Bank.

Series	Interest rate	Maturity	2017	2016
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	8,845,230	8,828,816
Series C - Issue of December 2010	6.75%	aug-70	5,652,720	5,658,699
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
			17,329,950	17,419,515

d) Perpetual bonds

Bonds of any series may be redeemed in whole or in part, at the option of the issuer as of the sixth year of the issuance date of the respective series and they are not secured.

Series	Interest rate	2017	2016
Series A - Issuance of May 2016	6.75%	23,764,935	23,752,100
Series B - Issuance of July 2016	6.75%	89,930,654	79,071,879
		113,695,589	102,823,979

18. Reserves of insurance operations

Unearned premiums

	2017	2016
Balance at the beginning of period	5,516,386	4,482,563
Issued premiums	5,626,308	6,774,005
Earned premiums	(2,998,155)	(2,684,499)
Balance at the end of the period	8,144,539	8,572,069
Reinsurers' participation	(2,495,658)	(3,632,275)
Unearned premiums, net	5,648,881	4,939,794

Unpaid claims, estimates	**2017**	**2016**
Balance at the beginning of the period	4,250,783	3,767,279
Incurred claims	2,067,701	2,317,670
Paid claims	(1,918,483)	(1,799,179)
Claims pending settlement, net estimates	4,400,001	4,285,770
	10,048,882	9,225,564

19. Other liabilities

	2017	2016
Accrued interest payable	53,878,551	39,584,967
Other creditors	33,971,594	21,443,804
Cashier checks and certificates	23,577,391	31,681,357
Hedging derivative (a)	13,311,248	5,494,081
Employee benefits and other labor liabilities	12,812,868	12,021,734
Provisions of insurance operations	12,475,292	9,225,564
Factoring guarantee deposits	6,274,719	5,695,010
Items in transit	5,706,661	8,072,731
Other provisions	4,057,796	4,738,491
Accounts payable - insurance	1,912,795	2,349,902
Interest payable Compensations Special Fund (FECI)	1,867,053	1,919,681
Judicial deposits and others	1,718,572	156,484
Pending acceptances	843,665	1,209,564
Income tax payable	-	254,627
	172,408,205	143,847,997

a) ***Hedging derivative***

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

Fair value hedge

To manage its position in the consolidated statement of financial position, the Bank has entered into interest rate swap contracts on corporate bonds and time deposits of clients with a nominal value of B/.1,555,003,000 as of September 30, 2017 (2016 : B/.1,055,003,000), which allows the conversion from fixed interest rate to variable rate during each payment period; and cross currency swap contracts on corporate bonds with a nominal value of B/.83,892,617 for both years that allow the conversion of fixed interest rate to variable interest rate and hedge the exchange rate variability during each payment period.

Below is a summary of derivative contracts based on maturities and accounting method:

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

	2016		
	Remaining maturity of nominal value		
Accounting method	**Over 1 year**	**Less than 1 year**	**Total**
Fair value	1,138,895,617	-	1,138,895,617
Total	1,138,895,617	-	1,138,895,617

As of September 30, 2017, the nominal amount and estimated fair value of interest rate swaps are presented in the table below. The fair value of derivative financial instruments is estimated using internal valuation models with observable market data.

	2017		**2016**	
Type	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Derivatives for fair value hedging (for funding)	1,638,895,617	(11,504,106)	1,138,895,617	8,687,488
Total	1,638,895,617	(11,504,106)	1,138,895,617	8,687,488

For cash flow hedges, the effective portion of gains or losses resulting from changes in fair value of a hedging derivative instrument is included in other comprehensive income (loss) earnings. The ineffective portion (indicated by the excess of cumulative change in fair value of the derivative of the amount needed to offset the cumulative change in expected future cash flows of the hedging transactions) is included in other income (expense). During the period, the hedge was highly effective to hedge the variability in interest rates risk that could affect the cash flows of the bank.

For the fair value hedge derivatives, the gains or loss from the changes in the fair value of the hedging instrument as well as the hedged item attributable to the hedged risk are included in other income (expenses).

b) Guarantees retained by clients and others

Guarantees retained payable clients consist of a percentage value of each discounted invoice retained until such time as its collection becomes effective. If at the end of the contract, the invoice becomes uncollectible, the Bank discounts the receivable account for the remaining balance in the account of guarantees withheld.

20. Common shares

As of September 30, 2017, the authorized capital of Global Bank Corporation consists of 2,000,000 common shares without par value, of which 106,500 shares are issued and outstanding for a value of B/.100,665,305 (2016: B/.98,202,657). As of September 30, 2017, dividends were paid on common shares for a total of B/.7,292,635 (2016: B/.4,710,536).

21. Interest and commission income and expenses

	2017	2016
Interest earned on:		
Loans	81,195,617	75,831,404
Deposits	578,477	498,552
Investments	9,171,393	6,882,526
	90,945,487	83,212,482
Interest expense:		
Deposits	(26,582,887)	(24,736,813)
Obligations with financial institutions and repurchase agreements	(5,468,285)	(4,513,469)
Negotiable commercial securities and bonds	(21,410,895)	(15,064,853)
	(53,462,067)	(44,315,135)
Net income from interest	37,483,420	38,897,347
Commissions earned from:		
Loans	5,372,828	6,064,018
Letters of credit	770,941	2,911,161
Savings accounts and debit cards	1,346,408	1,398,571
Trust and management services	2,141,072	2,181,613
Others	2,284,242	3,183,892
	11,915,491	15,739,255
Commission expenses	(2,851,211)	(2,660,962)
Net income from commissions	9,064,280	13,078,293
Net income from interest and commissions	46,547,700	51,975,640

22. Other income

	2017	2016
Net gain	55,124	300,025
Net loss in financial instruments	(202,410)	(469,173)
Insurance premiums, net	1,956,996	1,497,752
Trust and brokerage services	76,523	40,158
Other income	48,866	(516,853)
	1,935,099	851,909

23. Other expenses

	2017	2016
Communications and correspondance	406,594	457,833
Supplies and stationery	208,452	222,065
Insurance	489,513	483,410
Surveillance	489,212	465,917
Public services	364,373	336,447
Allowance for the redemption of miles	500,000	399,999
Other general expenses	1,188,991	1,300,023
Other operating expenses	1,596,740	1,096,956
	5,243,875	4,762,650

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

As of September 30, 2017, key executives held options on 145,079 common shares of the Parent Company (G.B. Group Corporation) (2016: 113,607), of which 41,566 could be exercised during 2018; 23,558 can be exercised in 2019; and 79,955 could be exercised in 2020, with an average execution price of B/.38.12 (2016: B/.36.88). The Bank recognized an income B/.177,870 (2016: expense B/.122,130), in the consolidated statement of profit or loss in the item line of salaries and other personnel expenses and the entry corresponding to equity which reflects the capital contribution that 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 period ended September 30, 2017 lease payments were B/.1,301,165 (2016: B/.1,096,329). Minimum lease commitments under all lease agreements for the next five years are detailed below:

	2017	2016
Up to 1 year	3,109,911	2,870,387
Between 1 and 5 years	13,030,745	11,803,299
	16,140,656	14,673,686

26. Commitments and contingencies

The Bank maintains financial instruments outside the consolidated statement of financial position with credit risks that arise in the normal course of business and which involve 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:

	2017	2016
Letters of credit	55,000,940	71,714,232
Endorsements and guarantees	468,478,340	369,889,812
Promissory notes	342,276,447	440,631,559
Unused credit lines	210,830,627	254,649,069
Total	1,076,586,354	1,136,884,672

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 September 30, 2017, the Bank has commitments for construction projects of its new facilities of B/.19,477,251 (2016: B/.27,700,543).

27. Management of trust contracts and investment portfolio

The Bank maintained under its management, as of September 30, 2017:

(a) Trust contacts at the clients' risk that amounted to B/.1,554,329,925 (2016: B/.1,479,621,255).

(b) An investment portfolio at the clients' risk of B/.1,082,779,859 (2016: B/.1,096,530,221).

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

	2017	2016
SIACAP	-	285,372,066
Severance Fund	250,962,119	237,114,624
Retirement Fund (under Law No. 10)	206,087,999	185,084,757
Pribanco and Conase Plus	532,396	1,556,064
Bipan Plus	81,630	268,590
Citibank, N. A.	5,530,171	6,359,454
Other assets in administration	598,709,327	-
	1,061,903,642	715,755,555

29. Income tax

The 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 September 30, 2017, 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 the Panama 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.

Beginning 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 exceed 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:

	2017	2016
Current income tax	2,105,452	2,759,916
Deferred income tax from temporary differences	(737,980)	(778,953)
Income tax	1,367,472	1,980,963

The effective average rate of the current income tax is 11.50% (2016: 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 which are detailed below:

	2017	**2016**
Balance at the beginning of the period	10,531,833	9,378,512
Credit to profit or loss during the period	737,979	778,953
Balance at the end of the period	11,269,812	10,157,465

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

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

	2017	**2016**
Profit before income tax	18,308,267	22,999,298
Less: non-taxable income	(16,947,677)	(21,005,506)
Plus: non-deductible expenses	7,037,720	8,932,184
Plus: Tax loss on subsidiaries	4,421	80,567
Tax base	8,402,731	11,006,543
Income tax calculated at 25%	2,100,683	2,751,636
Remittance income tax	4,769	8,280
Current income tax expense	2,105,452	2,759,916

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 revenues, costs or deductions in determining taxable income for purposes of income tax, the tax period in which declare or the operation 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:

2017

	Banking and financial activities	Insurance	Pension and severance funds	Total consolidated
Interest and commission income	100,663,340	410,312	1,787,326	102,860,978
Interest and provision expenses	58,880,805	-	-	58,880,805
Other income, net	(118,498)	1,956,996	96,601	1,935,099
Other expenses	23,287,716	605,320	714,253	24,607,289
Depreciation and amortization expense	2,967,793	6,257	25,666	2,999,716
Profit before income tax	15,408,528	1,755,731	1,144,008	18,308,267
Income tax	771,139	331,981	264,352	1,367,472
Net profit	14,637,389	1,423,750	879,656	16,940,795
Total assets	6,539,899,925	42,596,891	16,278,413	6,598,775,229
Total liabilities	5,994,413,133	14,691,277	686,748	6,009,791,158

2016

	Banking and financial activities	Insurance	Pension and severance funds	Total consolidated
Interest and commission income	96,994,193	378,280	1,579,264	98,951,737
Interest and provision expenses	50,726,279	-	-	50,726,279
Other income, net	(754,929)	1,497,752	109,086	851,909
Other expenses	22,369,367	565,450	724,626	23,659,443
Depreciation and amortization expense	2,376,460	18,371	23,795	2,418,626
Profit before income tax	20,767,158	1,292,211	939,929	22,999,298
Income tax	1,571,784	201,677	207,502	1,980,963
Net profit	19,195,374	1,090,534	732,427	21,018,335
Total assets	6,031,957,473	38,331,811	14,315,547	6,084,604,831
Total liabilities	5,538,408,471	13,123,226	595,348	5,552,127,045

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	Panama	100%
Global Financial Funds Corporation	Trust funds	sep-95	1995	Panama	100%
Global Capital Corporation	Corporate finance and financial advisory	may-93	1994	Panama	100%
Global Capital Investment Corporation	Purchase of discounted invoices	june-93	1993	British Virgin Island	100%
Global Valores, S. A.	Stockbrokers	aug-02	2002	Panama	100%
Global Bank Overseas y subsidiaries	Foreign banking	aug-03	2003	Montserrat	100%
Aseguradora Global, S. A.	Subscription and issuance of insurance policies	apr-03	2004	Panama	100%
Durale Holding, S. A.	Ownership and management of real estate	jan-06	2006	Panama	100%
Inmobiliara Arga, S. A.	Ownership and management of real estate	dec-09	2009	Panama	100%
Progreso, S. A.	Trust fund management	oct-98	2014	Panama	100%
Fondo Global de Inversiones	Investment company	sep-16	2016	Panama	100%

32. Regulatory aspects

Agreement 4-2013

Agreement 4-2013 was issued by the Superintendency of Banks of Panama, and provisions therein are established on 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%; Unrecoverable 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%
Unrecoverable	100%

The banks must calculate and maintain at all times the amount of the specific provisions determined by the methodology established in Agreement No.4-2013, which takes into account the outstanding balance of each credit facility classified in one of the categories subject to provision, less the present value of each 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 at September 30, 2017 and 2016, the classification of the loan portfolio and loan loss reserves based on Agreement 4-2013 is as follows:

2017

	Normal	Special mention	Subnormal	Doubtful	Unrecoverable	Total
Corporate loans	3,017,056,309	67,223,055	3,540,070	13,422,813	33,659,250	3,134,901,497
Consumer loans	1,851,423,153	37,722,054	15,541,324	6,011,683	16,991,232	1,927,689,446
Other loans	4,377,117	-	114	-	-	4,377,231
Total	4,872,856,579	104,945,109	19,081,508	19,434,496	50,650,482	5,066,968,174
Provision for individual impairment	-	7,016,858	3,510,273	4,160,421	20,769,210	35,456,762
Provision for collective impairment	10,646,377	-	-	-	-	10,646,377

2016

	Normal	Special mention	Subnormal	Doubtful	Unrecoverable	Total
Corporate loans	3,003,252,782	83,646,877	4,718,111	5,006,613	14,665,555	3,111,289,938
Consumer loans	1,681,229,617	27,209,337	9,629,133	5,750,894	12,273,711	1,736,092,692
Other loans	9,059,963	-	3,031	-	-	9,062,994
Total	4,693,542,362	110,856,214	14,350,275	10,757,507	26,939,266	4,856,445,624
Provision for individual impairment	-	5,564,481	3,034,748	3,979,261	13,941,441	26,519,931
Provision for collective impairment	15,322,336	-	-	-	-	15,322,336

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 September 30, 2017 and 2016, the classification of the loan portfolio by maturity profile based on Agreement 4-2013:

2017

	Current	Delinquent	Overdue	Total
Corporate	3,079,792,846	4,000,197	51,108,454	3,134,901,497
Consumer	1,844,578,537	45,142,947	37,967,962	1,927,689,446
Other	4,377,118	-	113	4,377,231
Total	4,928,748,501	49,143,144	89,076,529	5,066,968,174

2016

	Current	Delinquent	Overdue	Total
Corporate	3,082,505,525	2,927,427	25,856,986	3,111,289,938
Consumer	1,677,979,648	31,997,802	26,115,242	1,736,092,692
Other	9,059,963	-	3,031	9,062,994
Total	4,769,545,136	34,925,229	51,975,259	4,856,445,624

On the other hand, based on Agreement 8-2014, recognition of interest income is suspended on the basis late payment of 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 September 30, 2017 amount to B/.72,992,743 (2016: B/.34,929,048).

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, the 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 resulting in differences between IFRSs and prudential rules.

As of September 30, 2017 and 2016, the amount of the dynamic reserve by component is as follows:

	2017	2016
Component 1		
Risk-weighted assets (credit facilities - normal category)	4,251,412,218	3,513,858,978
By Alpha coefficient (1.50%)	63,771,183	52,707,885
Component 2		
Quarterly variation by Beta coefficient (5.00%)	8,916,960	7,848,515
Component 3		
Less: quarterly variation of specific reserves	5,405,144	(1,849,332)
Total dynamic resetve	67,282,999	62,405,732
Restrictions:		
Total dynamic reserve:		
Minimum (1.25% of risk-weighted assets - normal category)	53,142,653	43,923,237
Maximum (2.50% of risk-weighted assets - normal category)	106,285,305	87,846,474

Off-balance sheet operations

The Bank has made the classification of off-balance sheet operations and reserves required as of September 30, 2017 and 2016, based on Agreement No.4-2013 issued by the Superintendency of Banks of Panama shown below:

2017	Normal	Special mention	Subnormal	Doubtful	Unrecoverable	Total
Letters of credit	55,000,940	-	-	-	-	55,000,940
Endorsements and guarantees	468,478,340	-	-	-	-	468,478,340
Promissory notes	342,276,447	-	-	-	-	342,276,447
Unused credit lines	210,830,627	-	-	-	-	210,830,627
Total	1,076,586,354	-	-	-	-	1,076,586,354

2016	Normal	Special mention	Subnormal	Doubtful	Unrecoverable	Total
Letters of credit	71,714,232	-	-	-	-	71,714,232
Endorsements and guarantees	369,889,812	-	-	-	-	369,889,812
Promissory notes	440,631,559	-	-	-	-	440,631,559
Unused credit lines	254,649,069	-	-	-	-	254,649,069
Total	1,136,884,672	-	-	-	-	1,136,884,672

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, but 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 September 30, 2017 and 2016, 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.

Such capital reserves must be covered by assets admitted free of encumbrances.

Such reserved shall be cumulative. Their use and restitution will be regulated by the Superintendency of Insurance and Reinsurance of Panama when the claim rate shows adverse results.

	Reserve for statistical deviations		Reserve for catastrophic risk and contingencies	
	2017	**2016**	**2017**	**2016**
Balance at the beginning of the period	736,674	499,789	736,674	614,631
Increase in reserve funds	31,307	114,843	31,307	31,417
Balance at the end of the period	767,981	614,632	767,981	646,048

Regulatory reserve

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

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

The movement of the regulatory reserve is detailed below:

	2017	**2016**
Balance at the beginning of the period	4,518,323	3,754,855
Increase in reserve funds	191,548	129,740
Balance at the end of the period	4,709,871	3,884,595

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 September 30, 2017, the liquidity ratio percentage reported by the Bank to the regulatory body, under the parameters of Agreement 4-2008, was 54.91% (2016: 39.88%) (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 September 30, 2017, the Bank holds consolidated equity funds of approximately 14.17% (2016: 13.65%) 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 Law

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

e) Financial leasing Law

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

33. Approval of the consolidated financial statements

The consolidated financial statements of Global Bank Corporation and Subsidiaries for the period ended September 30, 2017 were authorized by General Management and approved by the Board of Directors for their issuance on October 25, 2017.

* * * * * *