FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

Global Bank Corporation and Subsidiaries

Consolidated financial statements for the three months ended September 30, 2021

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

Global Bank Corporation and Subsidiaries

Consolidated Financial Statements
As of September 30, 2021

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Global Bank Corporation and Subsidiaries

Consolidated statement of financial position
as of September 30, 2021
(In balboas)

	Notes	September 2021	June 2021
Assets			
Cash and bank deposits	7,16	629,553,439	508,316,487
Securities purchased under resale agreements	8	285,107	306,301
Investments in securities, net	6,9,16	1,006,893,880	1,110,163,904
Loans, net	6,10	5,973,609,678	6,007,976,619
Property, plant, equipment and improvements	11	193,970,605	195,030,353
Right-of-use assets	12	18,548,210	19,425,507
Other assets	6,13	511,416,891	482,324,722
Total assets		8,334,277,810	8,323,543,893
Liabilities and equity			
Liabilities			
Customer deposits	6,14	5,185,427,040	5,189,459,231
Bank deposits		77,422,415	44,910,134
Accrued interest payable		40,627,606	37,163,128
Total deposits		5,303,477,061	5,271,532,493
Securities sold under repurchase agreements	15	31,294,928	-
Obligations with financial institutions	9,16	1,216,366,867	876,325,546
Marketable securities	17	-	6,850,000
Corporate bonds	18	638,039,793	1,055,663,563
Subordinated bonds	19	-	7,833,557
Perpetual bonds	20	173,246,802	160,763,868
Accrued interest payable		15,823,150	16,474,079
Total financings		2,074,771,540	2,123,910,613
Lease liabilities	12	20,069,070	20,847,797
Other liabilities	6,21,22	148,271,641	117,534,410
Total liabilities		7,546,589,312	7,533,825,313
Equity			
Common shares	23	270,202,657	270,202,657
Excess paid-in capital	27	1,831,340	1,755,574
Capital reserve	34	42,612,749	42,382,907
Regulatory reserve	34	99,835,519	99,613,232
Fair value reserve		1,369,358	3,356,143
Retained earnings		371,836,875	372,408,067
Total shareholder's equity		787,688,498	789,718,580
Total liabilities and equity		8,334,277,810	8,323,543,893

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

Global Bank Corporation and Subsidiaries

Consolidated statement of profit or loss
for the three months ended September 30, 2021
(In balboas)

	Notes	September 2021	September 2020
Interest income	6	106,675,282	113,664,793
Interest expense	6	(63,483,206)	(67,491,689)
Net interest income	25	43,192,076	46,173,104
Commission income		14,398,460	10,519,230
Commission expense		(4,286,367)	(2,987,492)
Net commission income	25	10,112,093	7,531,738
Net interest and commission income, before provisions	25	53,304,169	53,704,842
Provision for loans		14,476,138	28,488,745
Provision (reversal of provision) for country risk		33,206	(56,684)
Provision (reversal of provision) for investment impairments		66,091	(179,722)
		14,575,435	28,252,339
Net interest and commission income, after provisions		38,728,734	25,452,503
Other income	25	3,477,183	3,570,652
Other expenses			
Salaries and other compensation	6	15,646,648	15,066,770
Professional fees		2,207,430	1,881,424
Depreciation and amortization	11,12,13	5,310,768	5,448,880
Marketing and advertising		356,256	304,490
Maintenance and repairs Leases		2,740,562	2,588,161
Other taxes		761,520	642,740
Other expenses		1,465,044	1,455,873
	26	6,645,075	5,349,984
		35,133,303	32,738,322
Profit before income tax		7,072,614	(3,715,167)
Income tax:			
Current		906,686	858,531
Deferred		1,041,286	(5,904,944)
Income tax (benefit)	31	1,947,972	(5,046,413)
Profit for the period		5,124,642	1,331,246

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

Global Bank Corporation and Subsidiaries

Consolidated statement of profit or loss and other comprehensive income
for the three months ended September 30, 2021
(In balboas)

	September 2021	September 2020
Profit for the period	5,124,642	1,331,246
Other comprehensive income:		
Items that can later be reclassified to profit or loss:		
Net amount transferred to profit or loss	(183,275)	(454,075)
Reserve (reversal of reserve) for investments	66,494	(179,488)
Net changes in the valuation of investments at fair value through other comprehensive income	(1,870,004)	814,526
Effect in the fair value of reclassified investments from the amortized cost category	-	4,061,750
Other comprehensive income of the period	(1,986,785)	4,242,713
Total comprehensive income of the period	3,137,857	5,573,959

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

Global Bank Corporation and Subsidiaries

Consolidated statement of changes in equity
for the three months ended September 30, 2021
(In balboas)

	Notes	Total shareholders' equity	Common shares	Excess paid-in capital	Capital reserves	Regulatory reserve	Fair value reserves	Retained earnings
Balance as of June 30, 2020		781,976,671	270,202,657	1,999,307	41,500,054	97,792,897	1,439,777	369,041,979
Profit for the period		1,331,246	-	-	-	-	-	1,331,246
Reversal of investment reserve		(179,488)	-	-	-	-	(179,488)	-
Net changes in the valuation of investments at fair value through other comprehensive income		4,422,201	-	-	-	-	4,422,201	-
Total comprehensive income for the period		5,573,959	-	-	-	-	4,242,713	1,331,246
Excess paid-in capital - share option plan for employees	27	122,130	-	122,130	-	-	-	-
Dividends paid - common shares	23	(5,003,581)	-	-	-	-	-	(5,003,581)
Complementary tax		(304,661)	-	-	-	-	-	(304,661)
Regulatory reserve	34	-	-	-	-	243,196	-	(243,196)
Capital reserve	34	-	-	-	245,703	-	-	(245,703)
Balance as of September 30, 2020		782,364,518	270,202,657	2,121,437	41,745,757	98,036,093	5,682,490	364,576,084
Balance as of June 30, 2021		789,718,580	270,202,657	1,755,574	42,382,907	99,613,232	3,356,143	372,408,067
Profit for the year		5,124,642	-	-	-	-	-	5,124,642
Investment reserve		66,494	-	-	-	-	66,494	-
Net changes in the valuation of investments at fair value through other comprehensive income		(2,053,279)	-	-	-	-	(2,053,279)	-
Total comprehensive income for the period		3,137,857	-	-	-	-	(1,986,785)	5,124,642
Excess paid-in capital - share option plan for employees	27	75,766	-	75,766	-	-	-	-
Dividends paid - common shares	23	(5,003,581)	-	-	-	-	-	(5,003,581)
Complementary tax		(240,124)	-	-	-	-	-	(240,124)
Regulatory reserve	34	-	-	-	-	222,287	-	(222,287)
Capital reserve	34	-	-	-	229,842	-	-	(229,842)
Balance as of September 30, 2021		787,688,498	270,202,657	1,831,340	42,612,749	99,835,519	1,369,358	371,836,875

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

Global Bank Corporation and Subsidiaries

Consolidated statement of cash flows
for the three months ended September 30, 2021
(In balboas)

	Notes	September 2021	June 2021
Cash flows from operating activities			
Profit for the period		5,124,642	26,593,150
Adjustments for:			
Depreciation and amortization	11,12,13	5,310,768	21,305,412
Gain on sale of property, furniture and equipment		(2,127)	(5,101)
Disposals of fixed asset		31,848	31,927
Gain on sale of securities at fair value through other comprehensive income	9	(183,275)	(7,527,134)
Net loss (gain) on instruments at fair value through profit or loss	25	83,237	(202,943)
Provision for loan losses, net		14,476,138	83,497,811
Reserve for investments		66,091	500,143
Income tax	31	1,947,972	(8,852,593)
Net interest and commission income	24	(106,675,282)	(436,095,180)
Interest expenses	24	63,483,206	263,333,029
Share option plan for employees	27	75,766	(243,733)
		(16,261,016)	(57,665,212)
Changes in:			
Deposits with maturities greater than 90 days		12,129,193	(4,858,083)
Securities purchases under resale agreements		21,194	4,755,724
Loans		20,673,965	248,810,283
Other assets		(30,666,763)	(81,129,522)
Customer deposits		(4,032,191)	90,457,200
Bank deposits		32,512,281	(27,855,048)
Other liabilities		32,706,368	7,397,556
Cash provided by operating activities		47,083,031	179,912,898
Income tax paid		(90,632)	(3,873,277)
Interest received		106,175,608	378,459,256
Interest paid		(61,850,213)	(262,152,473)
Net cash flows provided by operating activities		91,317,794	292,346,404
Cash flows from investment activities			
Purchase of securities at fair value through other comprehensive income		(100,329,786)	(1,651,925,402)
Sale of securities at fair value through other comprehensive income		201,301,932	1,645,314,605
Purchase of investments at fair value through profit or loss		(499,968)	(27,877,749)
Redemption of investments at fair value through profit or loss		185,800	-
Purchase of investments at amortized cost		-	(46,980,293)
Sales, redemptions and amortizations of investments at amortized cost		400,594	12,697,532
Purchase of property, furniture and equipment	11	(3,036,107)	(11,948,720)
Proceeds from sale of property, furniture and equipment		2,127	5,101
Net cash flows used in investment activities		98,024,592	(80,714,926)
Cash flows from financing activities			
Payments made for repurchase agreement operations	15	31,294,928	-
Obligations received of financial institutions	16	675,393,692	732,853,771
Obligations paid to financial institutions	16	(335,552,926)	(930,857,868)
Proceeds from marketable securities issuance	17	-	7,850,000
Payments for redemption of marketable securities	17	(6,850,000)	(24,300,000)
Proceeds from bond issuance	20	12,451,000	23,850,000
Redemption of bonds	20	(426,682,000)	(82,646,050)
Dividends paid common shares	23	(5,003,581)	(20,033,073)
Lease payment		(762,356)	(3,119,419)
Income tax		(240,124)	(490,801)
Net cash flows used in financing activities		(55,951,367)	(296,893,440)
Net increase (decrease) in cash and cash equivalents		133,391,019	(85,261,962)
Cash and cash equivalents at beginning of the period		473,989,795	559,251,757
Cash and cash equivalents at end of the period	7	607,380,814	473,989,795

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 Santa Maria Business District, Panama, Republic of Panama.

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

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

Through Resolution SBP-0077-2019 of the Superintendence of Banks of Panama, the merger by absorption is authorized of the banking entities Global Bank Corporation, Banco Panameño de la Vivienda, S.A. and the company GB, AV INC., all belonging to the same economic group, of which, Global Bank Corporation is the surviving company. The effective date of the merger was June 1, 2020.

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

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

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

2.1 Standards and interpretations adopted with effects on the consolidated financial statements

For the year 2021, the following IFRS standards and their interpretations ("IFRIC") became effective, which have had no impact on the Bank's consolidated financial statements.

- Amendment to IFRS 9, IAS 39, and IFRS 7 - Reference Interest Rate Reform.
- Amendment to IFRS 16 - Rental concessions related to COVID-19.
- Conceptual framework - Amendments to the references to the conceptual framework in the Standards.
- IFRS 3 (Amendment) - Definition of a business.
- IAS 1 and IAS 28 (Amendment) - Definition of materiality.

2.2 New and revised IFRSs issued, but not yet effective

New standards, interpretations and amendments to accounting standards have been published, but are not mandatory for the period ended September 30, 2021, and have not been adopted early by the Bank. The main changes to these new standards are presented below:

Amendments to IFRS 10 - Consolidated financial statements and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*:

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

The effective date of the amendments has yet to be set; however, earlier application of the amendments is permitted. The Bank's Management anticipates that the application of these amendments may have an impact on the consolidated financial statements in future periods.

IFRS 17 – Insurance contracts

In May 2016, the IASB issued IFRS 17 to replace IFRS 4. Accounting for insurance contracts requires entities to separate specified embedded derivatives, investment components, and performance obligations of insurance contracts in order to separately recognize, present, and disclose insurance revenue, insurance service expense, and insurance finance income or expense. However, a simplified measurement method is permitted to measure the service-related amount remaining by allocating the premium during the coverage period.

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

In June 2020, the IASB issued amendments to IFRS 17 to address concerns and implementation of changes that were identified after IFRS 17 was published. The amendments defer the initial application date of IFRS 17 (incorporating the amendments) to annual reporting beginning on or after January 1, 2023. At the same time, the IASB issued a Temporary Extension of Exemption to Apply IFRS 9 (amendments to IFRS 4) that extends the expiration date of the temporary exemption to apply IFRS 9 in IFRS 4 for annual periods beginning on or after January 1, 2023.

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

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

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

Amendments to IFRS 3 *Reference to the Conceptual Framework*

The amendments updated IFRS 3 so that it can refer to the 2018 *Conceptual Framework* instead of the 1989 *Framework*. They also added a requirement that, for obligations within the scope of IAS 37, a buyer applies IAS 37 to determine whether the acquisition date is a present obligation or exists as a result of a past event. For liens that are within the scope of IFRIC 21 - *Liens*, the buyer applies IFRIC 21 to determine whether the obligation gives rise to a liability to pay the lien that occurred at the acquisition date.

Finally, the amendments add an explicit statement that the buyer will not recognize a contingent asset acquired from a business combination.

The amendments are effective for business combinations whose acquisition date is on or after the initial period of the first annual period beginning on or after January 1, 2022. With an option for early application if the entity also applies all other updated references (published together with the *Conceptual Framework*) at the same time or early.

Amendments to IAS 37 - Onerous Contracts - Costs of Fulfilling a Contract

The amendments specify that the 'costs of fulfilling' a contract comprise 'costs directly related to the contract'. Costs that relate directly to a contract consist of the incremental costs and costs of fulfilling a contract (e.g. labor or materials) and the allocation of other costs that relate directly to fulfilling a contract (such as the allocation of depreciation to items of property, plant and equipment).

Amendments apply to contracts for which the entity has not yet fulfilled all of its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives should not be restated. Instead, an entity should recognize the cumulative effect of the initial application of the amendments as a balance sheet adjustment to retained earnings or such other component of equity, as appropriate, for the date of initial application.

The amendments are effective for annual periods beginning on or after January 1, 2022, with an option for earlier application.

Annual amendments to IFRS standards 2018-2020

Annual amendments were included to three standards which are of interest to the Bank:

IFRS 1 - First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief for a subsidiary that is a first-time adopter later than its parent with respect to accounting for cumulative translation differences. As a result of the amendments, a subsidiary using the IFRS 1: D16(a) exception may now elect to measure the cumulative translation effects of foreign operations at the carrying value that is included in the parent's consolidated statements. This is based on the parent's date of transition to IFRS if there were no adjustments for consolidation procedures and for the effects of business combinations in which the parent acquired the subsidiary. A similar election is available for an associate or joint venture that uses the exception in IFRS 1: D16(a).

The amendment is effective for periods beginning on or after January 1, 2022, with an early adoption option.

IFRS 9 - Financial Instruments

The amendment clarifies that when applying the '10%' test to assess whether a financial liability should be derecognized, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by the entity or the lender.

The amendments are applied prospectively to amendments or changes that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with an option for earlier application.

IFRS 16 - Leases

The amendments eliminate the reimbursement figure for leasehold improvements.

As the amendments to IFRS 16 are only with respect to an illustrative example, there is no established starting date.

Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments: Disclosures, IFRS 4, Insurance Contracts, and IFRS 16, Leases, "Interest Rate Benchmark Reform - Phase 2.

The IASB finalized its response to the ongoing reform of interbank offered interest rates ("IBOR") and other interest rate benchmarks by issuing a package of amendments to IFRS standards. The amendments complement those published in 2019 and focus on the effects on the financial statements when an entity replaces the old benchmark interest rate with an alternative benchmark rate as a result of the reforms.

The amendments in this final phase relate to:

- Changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities;
- Hedge accounting; and
- Disclosures

The amendments are effective for annual periods beginning on or after January 1, 2021, with early application permitted. Management is in the process of evaluating the impact of these amendments.

In addition, the following amendments have been issued and have no effect on the Bank's consolidated financial statements:

Amendments to IAS 1	*Classification of liabilities as current or non-current.*
Amendments to IAS 16	*Property, Plant and Equipment—proceeds before intended use*
Amendments to IAS 41	*Agriculture*

3. Basis of presentation

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards issued by the IASB.

3.2 Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis, except for investments at fair value through profit or loss; investments at fair value through other comprehensive income, assets or liabilities with fair value hedges and derivative instruments which are presented 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 Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36

The consolidated financial statements have been prepared by Management assuming that the Bank will continue to operate as a going concern. The impact of COVID-19 on the Bank's operations is described in Note 35 to the consolidated financial statements.

3.3 Basis of consolidation

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

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

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

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

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

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

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

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

Changes in the Banks' ownership interests in existing subsidiaries

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

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

3.5 Segment reporting

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

3.6 Financial assets

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

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

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

3.6.1 Classification

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

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

3.6.2 Evaluation of the business model

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

- The Bank's policies and objectives for the portfolio and the operation of these policies in practice. In particular, if the management strategy is focused on obtaining income from contractual interests, maintaining a particular interest rate profile, adapting the duration of the financial assets to the duration of the liabilities that finance those assets or making cash flows to through the sale of assets;
- How the portfolio performance is evaluated and informed to the Bank's Management;
- The risk that affects the performance of the business model and how these risks are managed;
- The frequency, volume and schedule of sales in previous years, the reason for such sales and their expectations about future sales activity. However, information on sales activity is not considered in isolation, but as part of a general assessment of how the Bank's stated objective for managing financial assets is achieved and how cash flows are realized.

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

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

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

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

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

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

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

3.6.4 Financial assets at fair value through other comprehensive income FVTOCI

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

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

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

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

3.6.5 Financial assets at amortized cost

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

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

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

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

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

3.6.7 Reclassification

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

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

3.6.8 Write-offs

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

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

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

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

3.6.9 Impairment of financial statements

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

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

Critical judgments are described in Note 5.

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

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

No impairment loss is recognized in equity investments.

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

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

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

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

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

- For the signed loan commitments, ECLs are the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment takes the loan and the cash flows that the Bank expects to receive if the loan is taken.

- For financial collateralized contracts, ECLs are the difference between the expected payments to reimburse the secured debt instrument holder less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

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

*3.6.9.*1 Impaired financial assets

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

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

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

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

*3.6.9.*2 Definition of default

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

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

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

*3.6.9.*3 Significant increase in credit risk

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

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

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

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

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

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

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

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

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

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

*3.6.9.*4 Modified or renegotiated loans

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

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

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

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

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

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

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

*3.6.9.*5 Write-offs

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

*3.6.9.*6 Presentation of the provision for ECLs in the consolidated statement of financial position

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

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

3.6.9.7 Loans at amortized cost

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

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

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

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

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

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

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

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

- Individually assessed loans - Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case by case basis. This procedure applies to all loans that are individually significant or not. If it is determined that there is no objective evidence of impairment for an individual loan, this loan is included in a group of loans with similar characteristics and are collectively evaluated to determine whether impairment exists.
  The impairment loss is calculated by comparing the present value of expected future cash flows, discounted at the loan's original effective interest loan, with its current carrying value and the amount of any loss is charged as a reserve for losses in the consolidated statement of profit or loss. The carrying amount of impaired loans is reduced using a reserve account.

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

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

3.7 Financial liabilities and issued equity instruments

Client deposits

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

Classification as debt or equity

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

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

Equity instruments

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

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

Liabilities from financial collateralized 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 collateral, documented irrevocably credit issued or confirmed by the entity, insurance and credit derivative.

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

Financial collateral are initially recognized in the consolidated financial statements at fair value at the date on which the collateral was issued. After initial recognition, bank liabilities under such collateral 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 collateral, and best estimate of disbursement required to settle any financial obligation arising as of the date of the consolidated statement of financial position. These estimates are determined based on the experience of similar transactions and history of past losses, supplemented by Management's judgment.

Borrowings

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

Securities sold under repurchase agreements

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

The Bank evaluates the market value of securities sold and releases collateral to counterparties when appropriate.

Other financial liabilities

Other financial liabilities, including debts, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an accrual basis. For those whose market risks are hedged at fair value, the gain or loss attributable to the hedged risk will adjust the carrying amount of the hedged instrument and will be recognized in the consolidated statement of financial of profit or loss.

Derecognition of financial liabilities

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

Dividends

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

3.8 Compensation of financial instruments

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

3.9 Interest income and expenses

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

3.10 Commission income

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

3.11 Securities purchased under resale agreements

Securities purchased under resale agreements (“repos”) are short-term transactions collateralized 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 collateral, as appropriate.

3.12 Financial leases receivable

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

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

3.13 Operating leases

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

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

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

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

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

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

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

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

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

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

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

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

3.14 Property, plant, equipment and improvements

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

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

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

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

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

3.15 Investment property

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

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

3.16 Foreclosed assets for sale

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

3.17 Goodwill and intangible assets

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

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

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

3.18 Impairment of non-financial assets other than goodwill

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

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

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

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

As of September 30, 2021, Management had not identified impairment loss of its non-financial assets.

3.19 Employee benefits

Severance fund

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

Retirement plan

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

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

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

3.20 Share-based payments

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

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

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

3.21 Income tax

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

Deferred tax

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

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

Complementary tax

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

3.22 Insurance operations

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

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

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

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

3.23 Trust operations

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

3.24 Hedge derivatives

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

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

- There is an economic relationship between the hedging instrument and hedged item.
- The effect of the credit risk does not dominate the value of the changes resulting from the economic relationship; and

- The hedging ratio of the hedging relationship is the same as that resulting from the amount of the hedged item that the Bank actually hedges and the amount of the hedged instrument that the Bank actually uses to hedge that hedged item amount.

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

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

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

Fair value hedge

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

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

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

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

Cash flow hedges

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

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

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

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

3.25 Cash equivalents

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

3.26 Reclassification

Certain amounts in the 2020 consolidated financial statements were reclassified to adapt to the presentation in the 2021 consolidated financial statements. These reclassifications and corrections do not change the total assets, liabilities, equity or profit of the respective years.

4. Financial risk management

4.1 Objectives of financial risk management

The Bank's activities are exposed to multiple financial risks and these activities include the analysis, evaluation, acceptance, and management of certain degree of risk or combination of risks. Taking risks is central to the financial business, and the operational risks are an inevitable consequence of being in business. Therefore, the objective of the Bank is to achieve an appropriate balance between risk and return and minimize the potential adverse effects on the Bank's financial profit. The activities of the Bank are mainly related with the use of financial instruments, and, as such, the consolidated statement of financial position is mainly composed of financial instruments. The Bank is therefore exposed to the following risks:

- Credit risk
- Liquidity risk
- Market risk
- Operating risk

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

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

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

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

4.2 Credit and counterparty risk

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

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

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

The Bank has established certain policies and procedures to mitigate credit risk summarized as follows:

Issuance of Credit Policies:

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

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

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

Establishment of Authorization Limits:

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

Exposure Limits:

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

Concentration Limits:

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

Counterparty Maximum Limits:

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

Review of Compliance Policies:

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

Review of coolateral:

The Bank holds collateral for loans granted to customers related to mortgages on properties and other collateral. 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 collateral. These collateral are updated according to the period of credit time and in the credit conditions in which the credit is impaired individually.

Impairment and provisioning policies:

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

Credit quality analysis

4.2.1 Table of the credit quality of financial assets and the impairment allowance

	September 2021	June 2021
Bank deposits		
Grade 1	578,255,297	445,316,314
Loans		
Grade 1	5,181,025,432	5,301,364,942
Grade 2	428,756,356	415,230,946
Grade 3	80,799,076	65,614,645
Grade 4	68,312,438	50,744,145
Grade 5	260,724,325	225,872,892
Gross amount	6,019,617,627	6,058,827,570
Accrued interest receivable	171,650,677	170,867,515
Allowance for individual and collective impairment	(204,857,748)	(208,585,582)
Discounted unearned interest	(12,800,878)	(13,132,884)
Net carrying value	5,973,609,678	6,007,976,619
Off-balance sheet transactions		
Grade 1		
Letters of credit	156,735,551	121,293,290
Endorsements and collateral	477,130,830	482,703,113
Promissory notes	180,019,353	169,185,471
Unused credit lines	509,209,589	463,726,656
	1,323,095,323	1,236,908,530
Securities purchased under resale agreements - at amortized cost		
Grade 1	285,107	306,301
Investments at fair value through other comprehensive income		
Grade 1	763,873,847	866,715,997
Investments at fair value through profit or loss		
Grade 1	38,895,691	38,664,760
Investments at amortized cost		
Grade 1	197,211,518	197,612,112

The aging of the delinquency of the loan portfolio is as follows:

	September 2021		
	Global Bank Corporation	Subsidiaries	Total
Current	5,556,436,012	147,650,364	5,704,086,376
31 to 90 days	116,474,420	-	116,474,420
More than 90 days (principal or interest)	123,452,459	-	123,452,459
More than 30 days overdue (maturity principal)	75,604,372	-	75,604,372
Total	5,871,967,263	147,650,364	6,019,617,627

	June 2021		
	Global Bank Corporation	Subsidiaries	Total
Current	5,653,835,087	163,851,287	5,817,686,374
31 to 90 days	48,226,507	-	48,226,507
More than 90 days (principal or interest)	111,195,308	-	111,195,308
More than 30 days overdue (maturity principal)	81,719,381	-	81,719,381
Total	5,894,976,283	163,851,287	6,058,827,570

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

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

4.2.2.1 Loan Portfolio

4.2.2.1.1 Credit quality analysis of loans by stage:

September 2021

	Stage 1	Stage 2	Stage 3	Total
Classification				
Grade 1	4,666,825,115	514,200,317	-	5,181,025,432
Grade 2	-	428,756,356	-	428,756,356
Grade 3	-	80,799,076	-	80,799,076
Grade 4	-	68,312,438	-	68,312,438
Grade 5	-	-	260,724,325	260,724,325
Gross amount	4,666,825,115	1,092,068,187	260,724,325	6,019,617,627
Interest receivable	100,672,070	61,804,034	9,174,573	171,650,677
Reserve for expected credit losses	(22,390,816)	(75,283,452)	(107,183,480)	(204,857,748)
Net carrying value	4,745,106,369	1,078,588,769	162,715,418	5,986,410,556

June 2021

	Stage 1	Stage 2	Stage 3	Total
Classification				
Grade 1	4,766,387,010	534,977,932	-	5,301,364,942
Grade 2	-	415,230,946	-	415,230,946
Grade 3	-	65,614,645	-	65,614,645
Grade 4	-	50,744,145	-	50,744,145
Grade 5	-	-	225,872,892	225,872,892
Gross amount	4,766,387,010	1,066,567,668	225,872,892	6,058,827,570
Interest receivable	106,988,780	56,671,966	7,206,769	170,867,515
Reserve for expected credit losses	(23,852,732)	(83,414,022)	(101,318,828)	(208,585,582)
Net carrying value	4,849,523,058	1,039,825,612	131,760,833	6,021,109,503

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

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

September 2021

	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year	23,852,733	83,414,021	101,318,828	208,585,582
Transferred to Stage 1	20,128,329	(19,552,711)	(575,618)	-
Transferred to Stage 2	(4,024,235)	22,093,410	(18,069,175)	-
Transferred to Stage 3	(148,342)	(22,103,198)	22,251,540	-
Net effect of changes in the reserve for expected credit losses	(18,180,664)	12,189,482	29,604,168	23,612,986
Origination of new financial assets	1,805,840	-	-	1,805,840
Settled loans	(1,042,843)	(757,553)	(9,142,292)	(10,942,688)
Written-off loans	-	-	(19,010,253)	(19,010,253)
Recoveries	-	-	806,281	806,281
Balance at the end of the period	22,390,818	75,283,451	107,183,479	204,857,748

June 2021

	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year	22,875,106	77,269,264	54,881,462	155,025,832
Transferred to Stage 1	42,656,872	(39,468,348)	(3,188,524)	-
Transferred to Stage 2	(15,830,274)	54,471,663	(38,641,389)	-
Transferred to Stage 3	(780,048)	(50,445,762)	51,225,810	-
Net effect of changes in reserve for expected credit losses	(29,337,003)	54,015,657	73,058,157	97,736,811
Origination of new financial assets	8,875,073	-	-	8,875,073
Settled loans	(4,606,993)	(12,428,453)	(6,078,627)	(23,114,073)
Written-off loans	-	-	(32,334,371)	(32,334,371)
Recoveries	-	-	2,396,310	2,396,310
Balance at the end of the year	23,852,733	83,414,021	101,318,828	208,585,582

Incorporation of information with a prospective vision

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

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

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

The effects known to Management and which can be reasonably estimated have been recognized in the September 30, 2021 consolidated financial statements. The principal assumptions described above may change as economic and market conditions change. (See Note 35).

4.2.2.2 Investment portfolio

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

September 2021	With investment rating	Standard monitoring	Without international rating	Total
Investments at fair value through other comprehensive income	272,089,319	200,850,326	290,934,202	763,873,847
Investments at fair value through profit or loss	4,725,908	-	34,169,783	38,895,691
Investments at amortized cost	137,045,351	39,999,406	20,166,761	197,211,518
Securities purchased under resale agreements	-	-	285,107	285,107
Total	413,860,578	240,849,732	345,555,853	1,000,266,163

June 2021	With investment rating	Standard monitoring	Without international rating	Total
Investments at fair value through other comprehensive income	357,232,344	214,872,968	294,610,685	866,715,997
Investments at fair value through profit or loss	4,786,232	-	33,878,528	38,664,760
Investments at amortized cost	137,293,492	40,151,859	20,166,761	197,612,112
Securities purchased under resale agreements	-	-	306,301	306,301
Total	499,312,068	255,024,827	348,962,275	1,103,299,170

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

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

The reserve for expected credit losses related to investments at fair value through other comprehensive income is broken down as follows:

September 2021

Investments at fair value through other comprehensive income	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of the year	2,226,968	-	-	2,226,968
Rollover from 12 months to full life with credit impairment	(2,044)	-	2,044	-
Net effect of changes in the reserve for expected credit losses	66,268	-	111,092	177,360
New instruments acquired	12,230	-	-	12,230
Paid-off investments	(123,096)	-	-	(123,096)
Balance at the end of the period	2,180,326	-	113,136	2,293,462

June 2021

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at the beginning of the year	1,793,142	-	-	1,793,142
Net effect of changes in the reserve for expected credit losses	24,202	-	-	24,202
New instruments acquired	1,443,593	-	-	1,443,593
Paid-off investments	(1,033,969)	-	-	(1,033,969)
Balance at the end of the year	2,226,968	-	-	2,226,968

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

September 2021

Investments at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of the year	405,466	-	-	405,466
Net effect of changes in the reserve for expected credit losses	(403)	-	-	(403)
Balance at the end of the period	405,063	-	-	405,063

June 2021

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of the year	339,149	-	-	339,149
Net effect of changes in the reserve for expected credit losses	35,959	-	-	35,959
New instruments acquired	31,938	-	-	31,938
Paid-off investments	(1,580)	-	-	(1,580)
Balance at the end of the year	405,466	-	-	405,466

4.2.2.3 Collateral to reduce credit risk and its financial impact

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

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

	Consumer				Corporate		
September 2021	**Personal**	**Credit cards**	**Vehicles**	**Mortgages**	**Commercial**	**Overdraft**	**Total loans**
Loans balances	743,666,045	134,457,407	240,427,786	1,806,849,073	2,910,929,103	183,288,213	6,019,617,627
Collateral	354,521,406	3,364,089	336,794,046	2,522,272,865	5,657,193,427	263,094,884	9,137,240,717
% of exposure subject to collateral requirements	48%	3%	140%	140%	194%	144%	152%

	Consumer				Corporate		
June 2021	**Personal**	**Credit cards**	**Vehicles**	**Mortgages**	**Commercial**	**Overdraft**	**Total loans**
Loans balances	730,432,258	135,535,181	238,689,108	1,788,216,687	2,965,458,525	200,495,811	6,058,827,570
Collateral	355,615,006	3,438,236	337,543,936	2,497,843,712	5,836,423,723	276,836,456	9,307,701,069
% of exposure subject to collateral requirements	49%	3%	141%	140%	197%	138%	154%

Residential mortgage loans

The table below shows the loan portfolio ratio of the mortgage portfolio in relation to the value of the collateral ("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 collateral. The gross amount of the loan excludes any impairment loss. The value of the collateral, for mortgages is based on the original value of the collateral at the date of disbursement.

	September 2021	June 2021
Residential mortgage loans:		
Less than 50%	120,812,336	118,166,965
51% - 70%	373,373,272	369,754,734
71% - 90%	922,796,305	910,432,782
Over 90%	389,867,160	389,862,206
Total	1,806,849,073	1,788,216,687

Time deposits placed in banks

As of September 30, 2021, the Bank held time deposits in Banks for B/.197,503,098 (June 2021: B/.292,938,297). Time deposits in banks are kept in domestic and foreign financial institutions. These institutions have domestic and/or international ratings, mostly with an international investment grade of at least BBB- by Fitch Ratings or Standard and Poor's, or Baa3 by Moody's.

4.2.2.4 Concentration of credit risk

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

	September 2021		
	Deposits in banks	**Loans**	**Investments**
Concentration by segment:			
Corporate	-	2,934,545,593	-
Consumer	-	2,938,496,819	-
Government	143,193,445	-	334,517,244
Other sectors	435,061,852	146,575,215	665,748,919
	578,255,297	6,019,617,627	1,000,266,163
Geographical concentration:			
Panama	220,529,450	5,712,445,087	480,111,490
Latin America and the Caribbean	20,075,522	260,603,050	325,381,047
Europe, Asia and Oceania	162,634,533	46,569,490	15,645,608
United States of America	175,015,792	-	179,128,018
	578,255,297	6,019,617,627	1,000,266,163

	June 2021		
	Deposits in banks	**Loans**	**Investments**
Concentration by segment:			
Corporate	-	3,018,929,459	-
Consumer	-	2,905,098,255	-
Government	95,121,849	-	349,993,922
Other sectors	350,194,465	134,799,856	753,305,248
	445,316,314	6,058,827,570	1,103,299,170
Geographical concentration:			
Panama	193,436,355	5,758,250,721	492,974,233
Latin America and Caribbean	35,076,304	278,068,889	360,111,953
Europe, Asia and Oceania	91,447,488	22,507,960	35,734,612
United States of America	125,356,167	-	214,478,372
	445,316,314	6,058,827,570	1,103,299,170

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

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

4.3 Liquidity or financing risk

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

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

Panamanian Banking Regulations require banks with a general license to keep at all times a minimum balance of liquid assets as defined in Agreement 4-2008 of the Superintendency of Banks of Panama of no less than 30% of their deposits. However, due to the severe liquidity policies for covering their operating liabilities, the liquidity of the Bank based on this standard as of September 30, 2021 was 42.94% (June 2021: 49.33%).

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

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

	September 2021	**June 2021**
At end of the period	**42.94%**	**49.33%**
Average for the period	45.80%	52.05%
Maximum for the period	48.37%	56.99%
Minimum for the period	42.94%	47.74%

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

September 2021	Carrying value	Discounted cash flows	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits	5,262,849,455	5,305,281,272	3,609,848,207	1,214,018,201	463,846,132	17,568,732
Repurchase agreements	31,294,928	31,382,489	31,382,489	-	-	-
Obligations with financial institutions	1,216,366,867	1,140,515,720	471,845,985	462,982,340	143,233,032	62,454,363
Corporate bonds	638,039,793	797,331,655	244,446,943	77,330,271	40,718,037	434,836,404
Perpetual bonds	173,246,802	243,876,474	11,693,418	23,386,836	136,177,872	72,618,348
Lease liabilities	20,069,070	28,730,549	3,652,008	5,748,260	4,913,885	14,416,396
	7,341,866,915	7,547,118,159	4,372,869,050	1,783,465,908	788,888,958	601,894,243

June 2021	Carrying value	Discounted cash flows	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits	5,234,369,365	5,277,120,180	3,559,716,155	1,237,364,074	459,225,513	20,814,438
Obligations with financial institutions	876,325,546	913,059,210	436,332,367	366,109,792	89,682,347	20,934,704
Marketable securities	6,850,000	6,878,083	6,878,083	-	-	-
Corporate bonds	1,055,663,563	1,228,862,549	645,417,893	102,757,554	40,717,532	439,969,570
Subordinated bonds	7,833,557	34,298,104	537,557	1,075,114	1,073,641	31,611,792
Perpetual bonds	160,763,868	226,864,502	10,964,867	21,929,734	45,779,179	148,190,722
Lease liabilities	20,847,797	29,904,898	3,932,932	5,909,365	5,058,736	15,003,865
	7,362,653,696	7,716,987,526	4,663,779,854	1,735,145,633	641,536,948	676,525,091

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

4.4 Market risk

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

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

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

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

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

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

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

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

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

September 2021	Less than 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Without interest rate	Total
Financial assets:						
Cash and deposits	196,753,098	-	750,000	-	431,830,814	629,333,912
Securities purchased under resale agreements - at amortized cost	-	285,107	-	-	-	285,107
Investments at fair value through other comprehensive income	87,833,265	34,056,900	226,203,058	390,102,567	25,678,057	763,873,847
Investments at fair value through profit or loss	-	-	-	28,765,908	10,129,783	38,895,691
Investments at amortized cost	-	-	52,473,298	144,738,220	-	197,211,518
Loans	4,544,476,532	12,549,389	139,953,376	1,322,638,330	-	6,019,617,627
Total financial assets	4,829,062,895	46,891,396	419,379,732	1,886,245,025	467,638,654	7,649,217,702
Financial liabilities:						
Deposits received	2,316,733,723	771,628,689	1,660,808,027	17,528,022	496,150,994	5,262,849,455
Resale agreements	31,294,928	-	-	-	-	31,294,928
Obligations with financial institutions	1,216,366,867	-	-	-	-	1,216,366,867
Corporate bonds	195,758,360	24,705,537	34,739,442	382,836,454	-	638,039,793
Perpetual bonds	-	-	-	173,246,802	-	173,246,802
	3,760,153,878	796,334,226	1,695,547,469	573,611,278	496,150,994	7,321,797,845
Total financial liabilities						
Commitments and contingencies	-	-	-	-	1,323,095,323	1,323,095,323
Total interest rate sensitivity	1,068,909,017	(749,442,830)	(1,276,167,737)	1,312,633,747	(28,512,340)	327,419,857

June 2021	Less than 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Without interest rate	Total
Financial assets:						
Cash and deposits	290,546,934	1,641,363	750,000	-	215,133,789	508,072,086
Securities purchased under resale agreements - at amortized cost	15,096	291,205	-	-	-	306,301
Investments at fair value through other comprehensive income	218,500,580	4,109,520	221,579,870	399,753,830	22,772,197	866,715,997
Investments at fair value through profit or loss	-	-	-	28,826,233	9,838,527	38,664,760
Investments at amortized cost	-	-	52,650,943	144,961,169	-	197,612,112
Loans	4,600,094,520	11,176,475	97,390,439	1,350,166,136	-	6,058,827,570
Total financial assets	5,109,157,130	17,218,563	372,371,252	1,923,707,368	247,744,513	7,670,198,826
Financial liabilities:						
Deposits received	2,189,093,433	871,232,316	1,680,839,090	20,735,672	472,468,854	5,234,369,365
Obligations with financial institutions	876,325,546	-	-	-	-	876,325,546
Marketable securities	6,850,000	-	-	-	-	6,850,000
Corporate bonds	-	613,456,746	59,382,666	382,824,151	-	1,055,663,563
Subordinated bonds	-	-	-	7,833,557	-	7,833,557
Perpetual bonds	-	-	-	160,763,868	-	160,763,868
Total financial liabilities	3,072,268,979	1,484,689,062	1,740,221,756	572,157,248	472,468,854	7,341,805,899
Commitments and contingencies	-	-	-	-	1,236,908,530	1,236,908,530
Total interest rate sensitivity	2,036,888,151	(1,467,470,499)	(1,367,850,504)	1,351,550,120	(224,724,341)	328,392,927

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

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

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

September 2021	Increase of 100bps	Decrease of 100bps
Investment in securities	(60,386,457)	70,437,471
Loans	(19,245,308)	20,639,264
Time deposits	47,037,174	(48,314,870)
Obligations with financial institutions	17,209,143	(17,917,840)
Corporate bonds	24,081,988	(25,803,255)
Subordinated and perpetual bonds	2,969,833	(3,054,989)
Net impact	11,666,373	(4,014,219)

June 2021	Increase of 100bps	Decrease of 100bps
Investment in securities	(55,876,934)	63,812,576
Loans	(18,742,223)	20,092,955
Time deposits	48,539,712	(49,866,440)
Obligations with financial institutions	7,338,881	(7,591,802)
Marketable securities	12,363	(12,398)
Corporate bonds	26,614,628	(28,446,650)
Subordinated and perpetual bonds	2,537,356	(2,884,439)
Net impact	10,423,783	(4,896,198)

4.5 Operating Risk

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

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

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

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

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

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

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

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

4.6 Insurance risk

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

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

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

4.7 Capital management

As of September 30, 2021, the Bank analyzes its regulatory capital applying the standards of the Superintendency of Banks of Panama based on the new agreements, Agreement 1-2015 of February 3, 2015 and Agreement 3-2016 of March 22, 2016, which modified Agreement 5-2008 of October 1, 2008, by means of which rules are established to determine assets weighted by credit risk and counterparty risk and the new agreements, Agreements 11-2018 of September 11, 2018, amended by Agreement 3-2019 of April 30, 2019, by means of which new provisions are established on Operational Risk and Agreement 2-2018 of January 23, 2018, by means of which, the Superintendency of Banks of Panama has determined to take into consideration other risks to determine the capital adequacy index, among which are the market risk, the operational risk and the country risk, in order to value the requirement of capital funds.

As a consequence of the global health effects due to the COVID-19 pandemic decreed by the World Health Organization (WHO), the need and convenience of establishing special temporary measures has been emphasized such as the validity of appraisal reports used for establishing collateral on movable and immovable property by means of General Resolution SBP-GJD-0004-2020 of the Board of Directors. Additionally, for the purposes of Article 2 of Agreement 3-2016, all risk assets classified in categories 7 and 8, whose weighting is 125% and 150% respectively, will be temporarily weighted as part of category 6, whose weighting is 100% by means of General Resolution SBP-GJD-0005-2020 of the Board of Directors.

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

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

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

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

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

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

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

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

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

	September 2021	June 2021
Primary capital (Tier 1)		
Paid in share capital	270,202,657	270,202,657
Excess paid in capital	1,831,340	1,755,574
Declared reserves	42,612,749	42,382,907
Retained earnings	371,836,875	372,408,067
Other items of the comprehensive income	1,369,358	3,356,143
Dynamic reserve	87,863,198	87,863,198
Sub total	775,716,177	777,968,546
Less: Regulatory adjustments to the calculation of ordinary primary capital		
Goodwill	(92,014,817)	(92,014,817)
Other intangible assets	(20,532,295)	(20,918,130)
Total primary capital funds	663,169,065	665,035,599
Perpetual bonds	173,246,802	160,763,868
Total additional primary capital funds	173,246,802	160,763,868
Subordinated bonds	-	7,833,557
Total secondary capital funds	-	7,833,557
Total capital funds	836,415,867	833,633,024
Risk weighted asset		
Total risk weighted assets	5,204,427,589	5,221,160,948
Capital ratios		
Total regulatory capital expressed as a percentage of risk weighted asset	16.07%	15.97%
Total Tier 1 expressed as a percentage of risk weighted assets	16.07%	15.82%

5. Accounting estimates, critical judgments and contingencies

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

Judgments

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

(a) Valuation of business model: The classification and measurement of financial assets depends on the results of the SPPI and the testing of the business model. The Bank determines the business model at a level that reflects how financial asset groups are managed together to achieve a particular business objective. This valuation includes reflecting all relevant evidence including how asset performance is evaluated and its performance measured, the risks that affect asset performance and how they are managed. The Bank monitors financial assets measured at amortized cost or at fair value through other comprehensive income that are written-off before maturity, to understand the reason for write-off and whether the reasons are consistent with the business objective for which the asset was held.

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

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

(d) Establishment of groups of assets with similar credit risk characteristics: When expected credit losses are measured on a collective basis, financial instruments are grouped based on shared risk characteristics.

The Bank monitors the appropriateness of credit risk characteristics on a continuous basis to assess whether they continue to be similar. This is required to ensure that, when the credit risk characteristics change, there is appropriate re-segmentation of the assets. This may result in the creation of new portfolios or that assets are moved to an existing portfolio that best reflects the similar credit risk characteristics of that group of assets. Portfolio re-segmentation and movement between portfolios is more common when there is a significant increase in credit risk (or when this significant increase is reversed) and therefore assets move from 12-months to expected credit losses over a life time, or vice versa, but it can also occur within portfolios that continue to be measured with the same 12-month basis or expected credit losses over a life time but the amount of expected credit losses changes because the portfolio's credit risk differs.

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

(f) Reserve for expected credit losses – When determining the reserve for expected credit, Management's judgment is required to evaluate the amount and timing of future cash flows in order to determine whether the credit risk has increased significantly from initial recognition, taking into account loan characteristics and default patterns in the past for similar financial instruments. The changes in the risk of default that occur in the next 12 months may be a reasonable approximation of the changes in the risk measured according to the life of the instrument. The Bank uses the changes in the risk of default that occur in the next 12 months to determine if the credit risk has increased significantly since initial recognition, unless the circumstances indicate that an assessment of the life of the instrument is necessary.

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

(h) After evaluating the recoverable value of the generating units to which the goodwill is assigned, Management considers that the goodwill of Banvivienda's generating unit is the most significant given its weight, whose value is 82% of the total goodwill in the balance sheet and, in addition, the most susceptible to impairment caused by current economic conditions and the effects of COVID-19. The budgets include income forecasts, interest costs, provisions and general expenses based on current and anticipated market conditions that have been considered and approved by the Board of Directors. While the Bank has made the projections with the best evidence at the balance sheet date and applying its judgment to future forecasts, the projections are inherently uncertain due to the uncertainty in the economy about the ultimate effect that COVID-19 will have.

The key assumptions to determine recoverable value are disclosed in Note 13.

(i) Impairment of the value of investments measured at fair value through other comprehensive income and investments measured at amortized cost – The Bank reviews its debt securities classified as investments at fair value through other comprehensive income and investments at amortized cost at the end of each reporting date to assess whether they are impaired. This requires a judgment similar to that applied to the individual evaluation of investment securities. The Bank records impairment when there has been a significant or prolonged decrease in the fair value below its cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Bank evaluates, among other factors, historical price movements and the duration and degree to which the fair value of an investment is lower than its cost.

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

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

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

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

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

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

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

Fair value of financial assets and financial liabilities measured at fair value on a recurring basis at the end of the year as of September 30, 2021 and June 30, 2021.

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

Financial assets/ liabilities	Fair value		Fair value hierarchy	Valuation technique(s) and key data inputs	Significant unobservable input data	Relationship between unobservable input data and fair value
	September 2021	June 2021				
Investments at fair value:						
Shares issued by companies -domestic	11,540,042	8,337,671	Level 2	Observable market prices in non-active markets.	N/A	N/A
Shares issued by companies -domestic	606,699	417,700	Level 3	Share prices in non-liquid markets.	Calibration prices and calibration date.	If unobservable data increases, the fair value of the instruments will decrease.
Shares issued by companies - foreign	315,638	327,213	Level 1	Observable market prices in active markets.	N/A	N/A
Shares issued by foreign companies, not listed in stock exchange	18,685	15,565	Level 3	Share prices in non-liquid markets.	Calibration prices and calibration date.	If unobservable data increases, the fair value of the instruments will decrease.
Private debt securities - domestic	19,932,965	20,393,689	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - domestic	23,889,134	46,566,220	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt securities - domestic	203,149,307	195,712,500	Level 3	Bond prices in non-liquid markets.	Calibration prices and calibration date.	If unobservable data increases, the fair value of the instruments will decrease.
Private debt securities - foreign	299,592,433	324,642,450	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - foreign	-	49,981,230	Level 2	Observable market prices in non-active markets.	N/A	N/A
Government debt securities - domestic	1,851,558	1,860,982	Level 1	Observable market prices in active markets.	N/A	N/A
Government debt securities - domestic not listed in stock exchange	576,083	670,510	Level 3	Bond prices in non-liquid markets.	Calibration prices and calibration date.	If unobservable data increases, the fair value of the instruments will decrease.
Government debt securities - foreign	155,044,846	170,017,079	Level 1	Observable market prices in active markets.	N/A	N/A
Shares issued by domestic companies, not listed in stock exchange	23,246,148	23,431,948	Level 3	Price per share, adjusted for the fair value of the issuer's properties, acquisition cost.	Growth in issuer's assets, liabilities, equity and profits.	If growth increases, the price increases and viceversa.
Private debt securities -domestic not listed in the stock exchange	24,040,000	24,040,000	Level 3	Present net value	CMS data, Cash flows	If the unobservable data deteriorates, the fair value of the instrument will be lower.
Private debt securities -domestic not listed in the stock exchange	38,966,000	38,966,000	Level 3	Discounted flows	Discount rate	If the discount rate is higher than the flows, the fair value of the instrument will be lower.
Total investments at fair value	802,769,538	905,380,757				
Derivative financial instruments:						
Interest rate swaps – fair value	407,426	206,871	Level 2	Present value. The valuation of an interest rate swap is achieved by adding the present value of all expected swap flows, and then applying a credit adjustment.	N/A	N/A
Total derivative financial instruments	407,426	206,871				

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

	September 2021 Investments at fair value through other comprehensive income Effect on equity	
	Favorable	**(Unfavorable)**
Fixed income instruments	12,370,509	(11,552,735)

	June 2021 Investments at fair value through other comprehensive income Effect on equity	
	Favorable	**(Unfavorable)**
Fixed income instruments	12,210,057	(11,396,505)

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

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

	September 2021		June 2021	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Assets				
Cash and deposits in banks	431,830,814	431,830,814	215,133,789	215,133,789
Time deposits	197,503,098	197,503,098	292,938,297	292,938,297
Securities purchased under resale agreements at amortized cost	285,107	285,107	306,301	306,301
Investments at amortized cost	197,211,518	201,024,101	197,612,112	203,026,951
Loans	5,801,959,001	5,918,776,077	5,837,109,104	5,957,800,352
Total financial assets	6,628,789,538	6,749,419,197	6,543,099,603	6,669,205,690
Liabilities				
Demand deposits	496,150,994	496,150,994	472,468,854	472,468,854
Savings deposits	1,225,097,796	1,225,097,796	1,182,619,841	1,182,619,841
Time deposits	3,541,600,665	3,617,105,815	3,579,280,670	3,661,792,053
Securities sold under repurchase agreements	31,294,928	31,294,928	-	-
Obligations with financial institutions	1,216,366,867	1,218,199,751	876,325,546	874,936,937
Marketable securities	-	-	6,850,000	6,871,005
Corporate bonds	638,039,793	662,454,603	1,055,663,563	1,083,021,908
Subordinated bonds	-	-	7,833,557	7,861,428
Perpetual bonds	173,246,802	175,623,714	160,763,868	164,300,296
Total financial liabilities	7,321,797,845	7,425,927,601	7,341,805,899	7,453,872,322

	Fair value hierarchy September 2021			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and deposits in banks	431,830,814	-	431,830,814	-
Time deposits	197,503,098	-	197,503,098	-
Securities purchased under resale agreements at amortized cost	285,107	-	285,107	-
Investments at amortized cost	201,024,101	183,085,767	-	17,938,334
Loans	5,918,776,077	-	-	5,918,776,077
Total financial assets	6,749,419,197	183,085,767	629,619,019	5,936,714,411
Liabilities				
Demand deposits	496,150,994	-	496,150,994	-
Savings deposits	1,225,097,796	-	1,225,097,796	-
Time deposits	3,617,105,815	-	3,617,105,815	-
Securities sold under repurchase agreements	31,294,928	-	31,294,928	-
Obligations with financial institutions	1,218,199,751	-	1,218,199,751	-
Corporate bonds	662,454,603	602,633,603	24,821,000	35,000,000
Perpetual bonds	175,623,714	-	134,353,388	41,270,326
Total financial liabilities	7,425,927,601	602,633,603	6,747,023,672	76,270,326

	Fair value hierarchy June 2021			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and deposits in banks	215,133,789	-	215,133,789	-
Time deposits	292,938,297	-	292,938,297	-
Securities purchased under resale agreements at amortized cost	306,301	-	306,301	-
Investments at amortized cost	203,026,951	185,473,802	-	17,553,149
Loans	5,957,800,352	-	-	5,957,800,352
Total financial assets	6,669,205,690	185,473,802	508,378,387	5,975,353,501
Liabilities				
Demand deposits	472,468,854	-	472,468,854	-
Savings deposits	1,182,619,841	-	1,182,619,841	-
Time deposits	3,661,792,053	-	3,661,792,053	-
Obligations with financial institutions	874,936,937	-	874,936,937	-
Marketable securities	6,871,005	-	6,871,005	-
Corporate bonds	1,083,021,908	993,200,908	54,821,000	35,000,000
Subordinated bonds	7,861,428	-	3,914,578	3,946,850
Perpetual bonds	164,300,296	-	125,022,346	39,277,950
Total financial liabilities	7,453,872,322	993,200,908	6,382,446,614	78,224,800

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

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

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

	September 2021	**June 2021**
Balance at beginning of the year	283,254,223	294,668,176
Additions	156,177	162,428,730
Reclassifications from Level 2 to Level 3	33,347,186	3,860
Reclassifications from Level 3 to Level 2	(13,910,136)	(21,860,810)
Net changes in securities	(1,069,909)	546,636
Redemptions, amortizations and cancellations	(11,174,619)	(152,532,369)
Balance at the end of the period	290,602,922	283,254,223

As of September 30, 2021, investments at fair value with changes in other comprehensive income in Level 3 did not affect the Bank's results.

The total unrealized gain or loss for fair value investments through changes in other comprehensive income classified as Level 3 as of September 30, 2021 is (B/.1,730,643) (June 2021: (B/.660,734)).

As of September 30, 2021, reclassifications between Level 2 and Level 3 investments in domestic corporate bonds occurred as a result of observed activity in the securities market in which they are listed.

6. Balances and transactions with related parties

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

	September 2021	June 2021
Transactions with related companies		
Consolidated statement of financial position		
Assets		
Investments at fair value through other comprehensive income	23,493,491	22,433,773
Investments at fair value through profit or loss	9,491,577	4,699,477
Loans	79,237,620	76,590,452
Accrued interest receivable	1,899,528	1,938,143
Other assets	59,510,830	54,437,258
Liabilities		
Client deposits:		
Demands	20,821,034	14,384,044
Savings	2,686,581	1,900,753
Time	70,241,887	76,433,222
Accrued interest payable	172,010	187,224
Commitments and contingencies	28,986,067	32,040,518

Consolidated statement of profit or loss

	September 2021	September 2020
Income and expenses		
Interest and dividend income	971,783	608,862
Interest expenses	580,836	662,506

	September 2021	June 2021
Transactions with Directors and key Management personnel		
Consolidated statement of financial position		
Assets		
Loans	13,480,815	13,011,670
Accrued interest receivable	84,377	80,704
Liabilities		
Client deposits:		
Demands	1,425,146	2,822,582
Savings	15,876,576	13,671,238
Time	48,293,092	48,286,950
Accumulated interest payable	275,174	114,899
Commitments and contingencies	1,169,750	1,137,411

Consolidated statement of profit and loss	**September 2021**	**September 2020**
Income and expenses		
Interest income	142,398	154,357
Interest expenses	447,742	512,237
Benefits of key Management personnel		
Salaries	1,557,569	1,394,798
Share option plan for employees	75,766	122,130
Allowances for Directors	241,500	228,300
	1,874,835	1,745,228

As of September 30, 2021, collateral guaranteeing loans to related parties amounted to B/.113,371,758 (June 2021: B/.114,125,430), which correspond to property, furniture and securities.

As of September 30, 2021, no loans with related parties show evidence of impairment. As of September 30, 2021, loans with related parties have maturities between October 2021 and October 2051 and annual interest rates ranging between 2.75% and 8.00% (June 2021: maturities between July 2021 and July 2051 and annual interest rates ranging between 2.75% and 8.00%).

7. Cash and cash equivalents

	September 2021	June 2021
Cash and cash equivalents	51,078,615	62,755,772
Demand deposits	380,752,199	152,378,017
Time deposits	197,503,098	292,938,297
	629,333,912	508,072,086
Interest receivable	219,527	244,401
Cash and bank deposits	629,553,439	508,316,487
Less:		
Interest receivable	(219,527)	(244,401)
Restricted time deposits	(1,482,735)	(1,482,735)
Time deposits with original maturities greater than 90 days	(20,470,363)	(32,599,556)
Cash and cash equivalents for purposes of the consolidated statement of cash flows	607,380,814	473,989,795

As of September 30, 2021, there are time deposits with original maturities greater than 90 days for B/.20,470,363 (June 2021: B/.32,599,556). In addition, there are restricted time deposits for B/.1,482,735 (June 2021: B/.1,482,735) which collateral financial obligations.

8. Securities purchased under resale agreements

As of September 30, 2021, securities purchased under resale agreements for B/. 285,107 (June 2021: B/.306,301) with maturities in May 2022 and June 2022 (June 2021: September 2021, May 2022 and June 2022), are collateralized by corporate bonds of companies listed in the Panama Stock Exchange.

9. Investments in securities

The breakdown of investments in securities is as follows:

	September 2021	June 2021
Investments at fair value through other comprehensive income	763,873,847	866,715,997
Investments at fair value through profit or loss	38,895,691	38,664,760
Investments at amortized cost	197,211,518	197,612,112
Interest receivable	7,317,887	7,576,501
Provision for impairment of investments at amortized cost	(405,063)	(405,466)
Investments in securities, net	1,006,893,880	1,110,163,904

9.1 Securities at fair value through other comprehensive income

	September 2021	June 2021
Securities listed in stock exchange:		
Shares issued by companies - domestic	6,695,735	3,781,420
Shares issued by companies - foreign	315,638	327,213
Private debt securities - domestic	246,971,406	262,672,409
Private debt securities - foreign	294,866,525	369,837,448
Government debt securities - domestic	1,851,558	1,860,982
Government debt securities - foreign	155,044,846	170,017,080
	705,745,708	808,496,552
Securities not listed in stock exchange:		
Shares issued by companies - domestic	18,567,371	18,567,370
Shares issued by companies - foreign	18,685	15,565
Private debt securities - domestic	38,966,000	38,966,000
Government debt securities - domestic	576,083	670,510
	58,128,139	58,219,445
	763,873,847	866,715,997

The annual interest rates accruing on investments at fair value through other comprehensive income ranged from 1.00% to 9.375% (June 2021: 1.00% and 9.38%).

As of September 30, 2021, there are investments at fair value through other comprehensive income for B/.22,859,550 (June 2021: B/.22,900,630), which guarantee obligations with financial institutions. (See Note 16).

As of September 30, 2021, the Bank sold and redeemed investments for B/.201,301,932 (June 2021: B/.1,645,314,605) and, as a result, recorded a profit of B/.183,275 (September 2020: B/.454,075), which is included in the consolidated statement of profit or loss.

9.2 Securities at fair value through profit or loss

The securities at fair value through profit or loss, are shown below:

	September 2021	June 2021
Securities listed in the stock exchange		
Shares issued by companies - domestic	5,451,006	4,973,950
Private debt securities - foreign	4,725,908	4,786,232
	10,176,914	9,760,182
Securities not listed in the stock exchange		
Shares issued by companies - domestic	4,678,777	4,864,578
Private debt securities - domestic	24,040,000	24,040,000
	28,718,777	28,904,578
	38,895,691	38,664,760

9.3 Securities at amortized cost

	September 2021		June 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Securities listed in the stock exchange:				
Government debt securities - domestic	111,861,685	116,797,139	112,103,951	117,551,521
Government debt securities - foreign	65,183,072	66,288,628	65,341,400	67,922,281
	177,044,757	183,085,767	177,445,351	185,473,802
Securities not listed in the stock exchange:				
Private debt securities - domestic	20,166,761	17,938,334	20,166,761	17,553,149
	20,166,761	17,938,334	20,166,761	17,553,149
	197,211,518	201,024,101	197,612,112	203,026,951

As of September 30, 2021, the annual interest rate earned by securities at amortized cost ranges between 2.252% and 8.875% (June 2021: 2.252% and 8.875%).

As of September 30, 2021, there are securities at amortized cost for B/.50,500,943 (June 2021: B/.50,755,968), which guarantee obligations with financial institutions. (See Note 16).

10. Loans

	September 2021			June 2021		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Domestic sector:						
Consumer	1,075,912,848	(59,986,002)	1,015,926,846	1,061,296,524	(60,449,084)	1,000,847,440
Commercial	1,204,836,776	(48,831,462)	1,156,005,314	1,244,507,236	(46,292,942)	1,198,214,294
Agricultural	347,482,353	(10,098,447)	337,383,906	357,325,560	(10,553,992)	346,771,568
Pledges	100,744,341	(661)	100,743,680	100,551,360	(289)	100,551,071
Overdrafts	123,944,944	(5,699,709)	118,245,235	127,631,785	(4,373,199)	123,258,586
Mortages	1,806,849,073	(33,797,421)	1,773,051,652	1,788,216,687	(29,356,833)	1,758,859,854
Industrial	253,454,277	(3,048,915)	250,405,362	241,634,566	(3,006,262)	238,628,304
Construction	535,090,212	(24,262,640)	510,827,572	579,906,557	(36,551,847)	543,354,710
Financial leasings	47,394,269	(1,782,941)	45,611,328	48,419,714	(1,841,138)	46,578,576
Factoring	216,735,994	(12,664,869)	204,071,125	208,760,732	(12,805,072)	195,955,660
Total domestic sector	5,712,445,087	(200,173,067)	5,512,272,020	5,758,250,721	(205,230,658)	5,553,020,063
Foreign sector:						
Commercial	183,117,465	(1,653,509)	181,463,956	162,001,889	(1,726,207)	160,275,682
Agricultural	725,000	(179)	724,821	750,000	(185)	749,815
Industrial	28,069,990	(2,641,155)	25,428,835	27,518,162	(1,191,078)	26,327,084
Construction	24,946,794	(308,211)	24,638,583	26,472,750	(337,229)	26,135,521
Pledge	10,970,022	-	10,970,022	10,970,022	-	10,970,022
Overdrafts	59,343,269	(81,627)	59,261,642	72,864,026	(100,225)	72,763,801
Total foreign sector	307,172,540	(4,684,681)	302,487,859	300,576,849	(3,354,924)	297,221,925
	6,019,617,627	(204,857,748)	5,814,759,879	6,058,827,570	(208,585,582)	5,850,241,988
Plus - Interest receivable			171,650,677			170,867,515
Less - Discounted unearned interest and commissions			(12,800,878)			(13,132,884)
Total			5,973,609,678			6,007,976,619

As of September 30, 2021, the loan portfolio accrued interest at a rate ranging from 0.75% to 30% (June 2021: 0.75% to 30%).

As of September 30, 2021, there are loans that collateralized corporate bonds for a total of B/.131,327,795 (June 2021: B/.131,118,018). (See Note 18).

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

	September 2021	June 2021
Fixed rate	748,800,044	728,363,635
Adjustable rate	5,041,577,076	5,124,755,388
Floating rate (Libor or Prime)	229,240,507	205,708,547
	6,019,617,627	6,058,827,570

Financial leasing

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

	September 2021	June 2021
Less than a 1 year	5,481,127	5,959,328
1 to 5 years	41,913,142	42,460,386
Total	47,394,269	48,419,714
Less: unearned interest	(7,456,258)	(7,724,098)
Total financial leasings, net	39,938,011	40,695,616

Restructured loans

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

As of September 30, 2021, restructured loans that would otherwise be overdue or impaired amount to B/.142,953,719 (June 2021: B/.117,985,958).

	September 2021	June 2021
Consumer:		
Personal loans	16,512,215	15,351,396
Mortgage	67,120,628	60,971,930
Corporate:		
Commercial	59,320,876	41,662,632
Total	142,953,719	117,985,958

11. Property, plant, equipment and improvements

	September 2021							
	Land	Property	Furniture and office equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At the beginning of the year	13,003,604	139,704,947	33,785,297	88,568,905	3,339,374	14,004,967	20,873,115	313,280,209
Additions or purchases	-	-	27,259	43,643	50,000	-	2,915,205	3,036,107
Reclassifications	-	371,437	253,011	339,801	-	-	(964,249)	-
Sales and write-offs	-	-	(100,563)	(82,176)	(289,851)	(674)	-	(473,264)
At the end of the period	13,003,604	140,076,384	33,965,004	88,870,173	3,099,523	14,004,293	22,824,071	315,843,052
Accumulated depreciation and amortization:								
At the beginning of the year	-	26,619,005	27,430,347	55,300,000	2,525,813	6,374,691	-	118,249,856
Expense for the period	-	984,251	728,354	1,958,485	132,370	260,547	-	4,064,007
Sales and write-offs	-	-	(114,109)	(37,456)	(289,851)	-	-	(441,416)
At the end of the period	-	27,603,256	28,044,592	57,221,029	2,368,332	6,635,238	-	121,872,447
Net balances	13,003,604	112,473,128	5,920,412	31,649,144	731,191	7,369,055	22,824,071	193,970,605

	June 2021							
	Land	Property	Furniture and office equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At the beginning of the year	13,003,604	139,706,297	33,880,234	87,575,566	3,920,624	14,274,456	10,935,905	303,296,686
Additions or purchases	-	-	108,344	1,761,049	142,117	-	9,937,210	11,948,720
Sales and write-offs	-	(1,350)	(203,281)	(767,710)	(723,367)	(269,489)	-	(1,965,197)
At the end of the year	13,003,604	139,704,947	33,785,297	88,568,905	3,339,374	14,004,967	20,873,115	313,280,209
Accumulated depreciation and amortization:								
At the beginning of the year	-	22,718,215	24,410,670	48,369,407	2,806,970	5,655,314	-	103,960,576
Expense for the year	-	3,900,790	3,212,488	7,696,821	424,309	988,142	-	16,222,550
Sales and write-offs	-	-	(192,811)	(766,228)	(705,466)	(268,765)	-	(1,933,270)
At the end of the year	-	26,619,005	27,430,347	55,300,000	2,525,813	6,374,691	-	118,249,856
Net balances	13,003,604	113,085,942	6,354,950	33,268,905	813,561	7,630,276	20,873,115	195,030,353

12. Right-of-use assets and lease liabilities

a) Right-of-use assets

Right-of-use assets are presented below:

Building and land	September 2021	June 2021
Cost:		
Balance at the beginning of the year	26,404,100	25,948,456
Adjustment from adoption of IFRS 16	(16,371)	-
Increases in right-of-use assets	-	455,644
Balance at the end of the period	26,387,729	26,404,100
Accumulated depreciation and amortization:		
Balance at the beginning of the year	6,978,593	3,439,071
Expense of the year	860,926	3,539,522
Balance at the end of the year	7,839,519	6,978,593
Net balance	18,548,210	19,425,507

Amounts recognized in the consolidated statement of profit or loss:

	September 2021	September 2020
Depreciation expense on right-of-use assets	860,926	986,555
Interest expense on lease liabilities	173,189	75,499
	1,034,115	1,062,054

b) Lease liabilities

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

	September 2021	June 2021
Up to 1 year	2,381,663	2,619,815
Between 1 and 5 years	6,806,798	6,994,623
5 years or more	10,880,609	11,233,359
Total	20,069,070	20,847,797

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

13. Other assets

	September 2021	June 2021
Goodwill (a)	92,014,817	92,014,817
Accounts receivable - related companies	59,510,830	54,437,258
Accounts receivable - National Treasury	50,199,601	50,456,626
Accounts receivable	49,073,343	48,793,226
Deferred income tax (b)	45,600,966	46,642,252
Investment properties (c)	42,850,897	42,850,897
Repossessed assets	40,327,368	25,399,073
Collateral deposits	23,913,774	26,186,098
Intangible assets (d)	20,532,295	20,918,130
Prepaid expenses	20,411,716	17,802,884
Severance Fund	7,836,922	7,600,595
Insurance premiums receivable	7,570,320	7,366,879
Insurance company claims	4,989,905	5,151,551
Tax credit - agricultural subsidy	3,691,305	3,864,468
Judicial deposits	3,008,503	3,078,024
Hedge derivative (e)	407,426	584,010
Customer obligations for acceptances	145,350	206,871
Other	39,331,553	28,971,063
	511,416,891	482,324,722

(a) Goodwill

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

Acquisition date	Company acquired	% of shares acquired	September 2021	June 2021
June 1999	Banco Confederado de América Latina, S.A. (COLABANCO)	100%	8,330,187	8,330,187
December 2004	Afianzadora Colón, S.A.	100%	25,000	25,000
December 2014	PROGRESO - Administradora Nacional de Inversiones, Fondos de Pensiones y Cesantías, S.A.	100%	8,407,500	8,407,500
December 2018	Banco Panameño de la Vivienda, S.A. y Subsidiarias		75,252,130	75,252,130
			92,014,817	92,014,817

(b) Deferred income tax

Details of deferred income tax can be found in Note 31.

(c) Investment properties

Investment properties consist of real estate for future development with a value of B/.66,861,200 according to the appraisal performed by Avalúos Inspecciones y Construcción, an independent appraiser of the Bank with experience and capacity to perform these appraisals. The fair value is based on the market methodology where the sales price per square meter of the land is the most relevant input. Fair value has been classified in level 3 of the IFRS 13 valuation hierarchy.

(d) Intangible assets

	September 2021	June 2021
Cost:		
Rights to manage HSBCs severance fund portfolio		
Investment Corporation (Panamá, S. A.)	1,389,963	1,389,963
Tradermarks and other intangibles	8,454,809	8,454,809
Intangible assets from the purchase of Banvivienda	15,500,000	15,500,000
	25,344,772	25,344,772
Accumulated amortization:		
Balance at beginning of the year	4,426,642	2,883,302
Amortization	385,835	1,543,340
	4,812,477	4,426,642
Net balance at end of the period	20,532,295	20,918,130

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

As of September 30, 2021 and June 30, 2021, there were no impairment losses recognized in goodwill or intangible assets. The valuation made using the discount method of net future cash flows generated by the acquired assets or business, indicates that the present value of these exceeds the carrying value of goodwill or intangible assets.

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

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

- To calculate the present value of future cash flows and determine the value of assets and businesses under assessment, the discount rate was used as the estimated average capital cost of the Bank for the periods referred to when the business unit assessed is the Bank. When the flows of asset funds or units are discounted with a profile different from the Bank, the capital cost applicable to that activity is used in case it differs. The Bank’s cost of capital is based on the average interest rates at long-term of AAA instruments in dollars, of the country risk premium and of the return premium for applicable capital investments. The cost of the Bank’s capital is approximately 12%.

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

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

(e) *Hedging derivatives*

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

Cash flow hedges

In order to manage its position in the consolidated statement of financial position, the Bank has entered into interest rate swap contracts on borrowings with a face value of B/.200,000,000 as of September 30, 2021 and June 30, 2021, which allow it to convert from variable to fixed interest rates during each payment period.

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

	September 2021 Remaining maturity of notional amount		
Method of accounting	**Over 1 year**	**Less than 1 year**	**Total**
Cash flows	200,000,000	-	200,000,000
Total	200,000,000	-	200,000,000

	June 2021 Remaining maturity of nominal value		
Accounting method	**More than 1 year**	**Less than 1 year**	**Total**
Cash Flows	200,000,000	-	200,000,000
Total	200,000,000	-	200,000,000

The notional amount and estimated fair value of interest rate derivative instruments at September 30, 2021 and June 30, 2021 are presented in the table below. The fair value of derivative financial instruments is estimated using valuation models with observable market data.

	September 2021		June 2021	
Type	**Notional value**	**Fair value**	**Notional value**	**Fair value**
Derivatives for cash flow hedges (for financing)	200,000,000	407,426	200,000,000	206,871
Total	200,000,000	407,426	200,000,000	206,871

14. Client deposits

September 2021	Demand	Savings	Time	Total
Economic segment				
Corporate	415,880,697	409,738,290	2,169,256,646	2,994,875,633
Personal	80,270,297	815,359,506	1,294,921,604	2,190,551,407
	496,150,994	1,225,097,796	3,464,178,250	5,185,427,040
Segment				
Domestic	472,459,275	1,156,232,809	2,970,389,429	4,599,081,513
Foreign	23,691,719	68,864,987	493,788,821	586,345,527
	496,150,994	1,225,097,796	3,464,178,250	5,185,427,040

June 2021	Demand	Savings	Time	Total
Economic segment				
Corporate	391,504,370	395,770,116	2,229,123,393	3,016,397,879
Personal	80,964,484	786,849,725	1,305,247,143	2,173,061,352
	472,468,854	1,182,619,841	3,534,370,536	5,189,459,231
Segment				
Domestic	445,790,284	1,120,629,300	2,959,149,655	4,525,569,239
Foreign	26,678,570	61,990,541	575,220,881	663,889,992
	472,468,854	1,182,619,841	3,534,370,536	5,189,459,231

15. Securities sold under repurchase agreements

As of September 30, 2021, the Bank maintained repurchase agreements for B/.31,294,928, collateralized by securities at fair value through other comprehensive income with interest rate 1.132% and maturity in December 2021.

16. Obligations with financial institutions

	September 2021	June 2021
As of September 30, 2021, there are obligations with other banks for the financing of foreign trade, with multiple maturities until September 2023 and annual interest rates between 0.5560% and 2.5873% (June 2021: between 0.5560% and 2.6065%)	194,202,884	168,847,189
As of September 30, 2021, there are obligations with financial institutions for the management of short-term liquidity, with renewal maturities starting October 2021 and interest rates between 2.15% and 2.37%, reviewed semianually (June 2021: between 2.15% and 2.37%).	55,006,833	55,006,833
As of September 30, 2021, there are obligations with international organizations for handling long-term liquidity, with renewal maturities between November 2021 and September 2025 and interest rates between 1.909% and 3.453% (June 2021: between 1.948% and 3.453%)	180,234,308	139,420,310
As of September 30, 2021, there are obligations with foreign banks for working capital, with multiple maturities until August 2028 and annual interest rates between 1.90175% and 3.25% (June 2021: between 1.98588% and 3.25%).	660,706,140	373,320,764
As of September 30, 2021, there are obligations with a multilateral financial institution, with various terms and final maturities starting February 2022 until January 2027, interest rates range between 1.4748% and 3.50%, reviewed semiannually (June 2021: between 1.5059% and 3.500%).	126,216,702	139,730,450
	1,216,366,867	876,325,546

As of September 30, 2021, there are investments at fair value through other comprehensive income for B/.22,859,550 (June 2021: B/.22,900,630) and securities at amortized cost for B/.50,500,943 (June 2021: B/.50,755,968 which guarantee these obligations with financial institutions. Additionally, there are restricted time deposits as of September 30, 2021 for B/.1,482,735 (June 2021: B/.1,482,735), which guarantee these obligations with financial institutions.

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

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

	September 2021	June 2021
Balance at beginning of the year	876,325,546	1,074,122,772
Others movements	200,555	206,871
Obligations received	675,393,692	732,853,771
Payments made	(335,552,926)	(930,857,868)
Balance at the end of the period	1,216,366,867	876,325,546

17. Marketable securities (VCNs for its initials in Spanish)

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

Series	Issuance date	Interest rate	Maturity	September 2021	June 2021
D-G	Jul-20	3.00%	Jul-21	-	1,850,000
D-H	Aug-20	3.00%	Aug-21	-	2,000,000
D-I	Sep-20	2.75%	Sep-21	-	3,000,000
				-	6,850,000

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

	September 2021	June 2021
Balance at beginning of the year	6,850,000	23,300,000
Proceeds from issuance	-	7,850,000
Redemptions	(6,850,000)	(24,300,000)
Balance at the end of the period	-	6,850,000

18. Corporate bonds

Type	Interest rate	Maturity	September 2021	June 2021
A Series - October 2016 Issuance	4.50%	Oct-21	195,758,360	583,493,143
A Series - August 2018 Issuance	5.00%	Aug-21	-	29,963,603
B Series - August 2018 Issuance	5.25%	Aug-22	24,705,537	24,675,090
C Series - August 2018 Issuance	5.50%	Aug-23	34,739,442	34,707,576
A Series - April 2019 Issuance	5.25%	Apr-29	382,836,454	382,824,151
			638,039,793	1,055,663,563

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

October 2016 Issuance – The bonds of this issuance constitute direct, unconditional and unsecure obligations. This issuance was registered in Panama in December 2017 for an amount of B/.550,000,000.

August 2018 Issuance – The bond issuance is collateralized through a Collateral Trust with the Fiduciary Agent in whose favor Mortgage Loans with a total value that must cover at least 120% of the Unpaid Capital Balance of Issued and Outstanding Bonds will be transferred. Interest is payable quarterly and the principal of the bonds at maturity.

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

As of September 30, 2021, there are corporate bonds that maintain loan collateral in trust for a total of B/.131,327,795 (June 2021: B/.131,118,018). (See Note 10).

19. Subordinated bonds

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

Type	Interest rate	Maturity	September 2021	June 2021
A Series - August 2010 Issuance	6.75%	Aug-70	-	554,000
B Series - November 2010 Issuance	6.75%	Aug-70	-	3,039,954
C Series - December 2010 Issuance	6.75%	Aug-70	-	3,354,603
D Series - May 2011 Issuance	6.75%	Aug-70	-	270,000
E Series - October 2014 Issuance	6.75%	Aug-70	-	615,000
			-	7,833,557

20. Perpetual bonds

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

Type	Interest rate	September 2021	June 2021
A Series - May 2016 Issuance	6.75%	23,921,028	23,909,981
B Series - July 2016 Issuance	6.75%	90,499,197	90,480,258
C Series - May 2018 Issuance	6.75%	5,191,950	5,191,950
D Series - May 2019 Issuance	6.75%	16,572,627	16,570,679
E Series - June 2020 Issuance	6.75%	4,611,000	4,611,000
F Series - September 2020 Issuance	6.50%	5,299,000	5,299,000
G Series - December 2020 Issuance	6.50%	14,701,000	14,701,000
H Series - September 2021 Issuance	5.75%	12,451,000	-
		173,246,802	160,763,868

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

	September 2021	June 2021
Balance at beginning of the year	1,224,260,988	1,278,616,418
Proceeds from issuances	12,451,000	23,850,000
Debt issuance cost / amortization of debt issuance cost	919,222	3,271,628
Redemptions	(426,682,000)	(82,646,050)
Premiums, discounts / discount premium amortization	337,385	1,168,992
Balance at the end of the period	811,286,595	1,224,260,988

21. Other liabilities

	September 2021	June 2021
Other creditors	63,128,972	34,083,259
Employee benefits and other labor liabilities	20,279,659	18,459,202
Cashiers´ and certified checks	19,039,517	18,114,394
Reserve of insurance operations (Note 22)	14,855,258	14,362,255
Factoring collateral deposits (a)	8,756,917	8,169,290
Other reserves	8,079,953	8,866,674
Legal and others deposits	3,284,074	3,616,716
Accounts payable - Insurance	2,141,583	2,140,917
Special Interest Offsetting Fund (FECI) payable	1,738,316	1,516,215
Pending acceptances	145,350	584,010
Income tax payable	45,792	62,369
Others	6,776,250	6,378,553
	148,271,641	116,353,854

a) Clients’ and other withheld collateral

Clients’ withheld collateral payable consists of a percentage value of each discounted invoice withheld until the time the payment is collected. If, at the end of the contract, the invoice becomes uncollectible, the Bank will decrease the amount receivable by the balance of the factoring collateral deposit of the related transaction.

22. Reserves for insurance operations

Unearned premiums

	September 2021	June 2021
Balance at beginning of year	7,226,720	7,794,965
Premiums issued	7,996,275	32,156,701
Premiums earned	(4,552,088)	(18,225,260)
Balance at the end of the period	10,670,907	21,726,406
Participation of reinsurers		
Premiums ceded	(994,695)	(11,995,488)
Unearned premiums	(735,271)	(980,003)
Unearned premiums, net	8,940,941	8,750,915

Pending claims to be settled, estimates	September 2021	June 2021
Balance at beginning of the year	5,611,340	6,347,257
Claims incurred, net	2,998,334	14,778,490
Claims paid	(2,695,357)	(15,514,407)
Balance at the end of the period	5,914,317	5,611,340
	14,855,258	14,362,255

23. Common shares

As of September 30, 2021, the authorized share capital of Global Bank Corporation is comprised of 2,000,000 common shares with no par value, of which 236,600 (June 2021: 236,600) shares are issued and outstanding worth B/.270,202,657 (June 2021: B/.270,202,657).

As of September 30, 2021, a total of B/.5,003,581 (September 2020: B/.5,003,581) was paid as dividends on common shares.

24. Interest and commission income and expenses

	September 2021	September 2020
Interest earned on:		
Loans	97,196,135	104,491,014
Deposits	310,192	416,041
Investments	9,168,955	8,757,738
	106,675,282	113,664,793
Interest expense on:		
Deposits	(40,999,995)	(43,879,396)
Obligations with financial institutions and repurchase agreements	(6,155,635)	(6,309,712)
Marketable securities and bonds	(16,327,576)	(17,302,581)
	(63,483,206)	(67,491,689)
Net interest income	43,192,076	46,173,104
Commissions earned on:		
Loans	6,461,494	4,781,561
Letters of credit	368,619	507,651
Savings accounts and debit cards	1,070,422	1,000,744
Fiduciary and management services	3,429,506	2,330,847
Others	3,068,419	1,898,427
	14,398,460	10,519,230
Commission expenses	(4,286,367)	(2,987,492)
Net commissions income	10,112,093	7,531,738
Net interest and commissions income	53,304,169	53,704,842

25. Other income, net

	September 2021	September 2020
Insurance premiums, net	2,981,642	2,787,895
Net gain on sale of securities	183,275	454,075
Fiduciary and brokerage services, net	210,683	88,775
Net (loss) gain on instruments at fair value through profit or loss	(83,237)	160,863
Other income (expenses)	184,820	79,044
	3,477,183	3,570,652

26. Other expenses

	September 2021	September 2020
Reserve for redemption of miles	625,000	450,000
Surveillance	445,171	403,436
Communications and correspondance	424,859	462,390
Public utilities	392,331	352,128
Supplies and stationary	129,862	97,843
Insurance	32,844	52,359
Other operating expenses	2,366,586	2,360,681
Other general expenses	2,228,422	1,171,147
	6,645,075	5,349,984

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

As of September 30, 2021, key executive officers held stock options over 34,674 common shares of the Parent Company (G.B. Group Corporation) (June 2021: 35,234), of which 18,200 shares may be exercised in 2021 and 16,474 may be exercised in 2022 with an average execution price of B/.41.00 as of September 30, 2021 (June 2021: B/.41.00). The Bank recognized income for B/.75,766 (September 2020: B/.122,130) in the consolidated statement of profit or loss under miscellaneous income (and the corresponding entry in equity.

28. Commitments and contingencies

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

	September 2021	June 2021
Letters of credit	156,735,551	121,293,290
Endorsements and collateral	477,130,830	482,703,113
Promissory notes	180,019,353	169,185,471
Unused credit lines	509,209,589	463,726,656
Total	1,323,095,323	1,236,908,530

Commercial letters of credit collateral 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 collateral are the same as those for granting of loans that are recorded on the consolidated statement of financial position.

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

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

29. Management of trust contracts and investment portfolio

As of September 30, 2021, the Bank held trust contracts at the clients' risk that amounted to B/.2,833,016,161 (June 2021: B/.2,799,433,707).

	September 2021	June 2021
Collateral Trust	2,563,664,305	2,520,329,920
Investment Trust	133,024,987	134,786,615
Management Trust	132,537,911	140,471,024
Pension Trust	2,600,818	2,666,938
Testamentary Trust	601,314	595,902
Assets - PLICA contract	586,826	583,308
	2,833,016,161	2,799,433,707

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

30. Management of pension and severance funds

	September 2021	June 2021
Severance Fund	306,380,945	305,339,517
Pension Fund (under Law No. 10)	236,455,303	229,430,496
Citibank, N. A.	3,008,066	3,185,659
Pribanco and Conase Plus	23,547	23,538
Bipan Plus	67,925	67,895
Other assets under management	31,764,098	31,474,010
	577,699,884	569,521,115

31. Income tax

Income tax returns for the last three years of banks incorporated in the Republic of Panama are subject to examination by the tax authorities, including for the year ended June 30, 2021, according to current fiscal regulations.

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

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

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

The current income tax is broken down as follows:

	September 2021	September 2020
Current income tax	906,686	858,531
Deferred tax for temporary differences	1,041,286	(5,904,944)
Income tax (benefit)	1,947,972	(5,046,413)

The current income tax's average effective rate as of September 30, 2021 was 12.82%

The tax effect item that comprises the deferred tax asset included in the consolidated statement of financial position, is the reserve for possible loans losses and the goodwill tax effect, which is broken down below:

	September 2021	June 2021
Balance at beginning of the year	46,642,252	33,894,103
Credit to profit or loss during the period	(1,041,286)	12,748,149
Balance at the end of the period	45,600,966	46,642,252

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

A reconciliation of income tax is shown below:

	September 2021	September 2020
Profit before income tax	7,072,614	(3,715,167)
Less: non-taxable income	(18,541,257)	(3,300,033)
Plus: non-deductible expenses	15,094,998	1,287,944
Plus: tax loss on subsidiaries	390	9,153,018
Taxable base	3,626,745	3,425,762
Income tax calculated at 25%	906,686	856,441
Remittance income tax	-	2,090
Income tax expense	906,686	858,531

The deferred income tax asset is broken down as follows:

	September 2021	June 2021
Deferred income tax asset:		
Provision for expected losses	48,548,298	49,691,816
Acquired intangible asset - core deposit	(3,094,615)	(3,175,344)
Other provision	147,283	125,780
Deferred income tax asset	45,600,966	46,642,252

The reconciliation of the deferred income tax from the previous year with the one for the current year is as shown below:

September 2021		**Charged to Profit or Loss**	
Deferred income tax asset:			
Provision for expected losses	49,691,816	(1,143,518)	48,548,298
Acquired intangible - core deposit	(3,175,344)	80,729	(3,094,615)
Other provision	125,780	21,503	147,283
Deferred income tax asset	46,642,252	(1,041,286)	45,600,966

June 2021		**Charged to Profit or Loss**	
Deferred income tax asset:			
Provision for expected losses	37,266,587	12,425,229	49,691,816
Acquired intangible - core deposit	(3,498,264)	322,920	(3,175,344)
Other provision	125,780	-	125,780
Deferred income tax asset	33,894,103	12,748,149	46,642,252

Transfer pricing:

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

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

32. Segment information

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

	September 2021			
	Banking and financial activities	Insurance	Pension and severance funds	Total consolidated
Interest and commission income	117,540,363	531,660	3,001,719	121,073,742
Interest expenses and provisions	82,288,339	56,734	(65)	82,345,008
Other income, net	291,765	3,227,026	(41,608)	3,477,183
Other expenses	27,246,041	1,558,908	1,017,586	29,822,535
Depreciation and amortization expense	5,263,376	2,910	44,482	5,310,768
Profit before income tax	3,034,372	2,140,134	1,898,108	7,072,614
Income tax	1,169,420	411,648	366,904	1,947,972
Net profit	1,864,952	1,728,486	1,531,204	5,124,642
Total assets	8,239,912,528	61,677,549	32,687,733	8,334,277,810
Total liabilities	7,519,918,001	25,668,178	1,003,133	7,546,589,312

	September 2020			
	Banking and financial activities	Insurance	Pension and severance funds	Total consolidated
Interest and commission income	121,738,353	477,282	1,968,388	124,184,023
Interest expenses and provisions	98,669,990	65,448	(3,918)	98,731,520
Other income, net	626,198	2,842,686	101,768	3,570,652
Other expenses	25,924,337	758,814	606,291	27,289,442
Depreciation and amortization expense	5,396,918	3,320	48,642	5,448,880
Profit before income tax	(7,626,694)	2,492,386	1,419,141	(3,715,167)
Income tax	(5,848,769)	510,297	292,059	(5,046,413)
Net profit	(1,777,925)	1,982,089	1,127,082	1,331,246
	June 2021			
Total assets	8,232,793,328	59,866,842	30,883,723	8,323,543,893
Total liabilities	7,507,967,572	25,127,233	730,508	7,533,825,313

33. 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	Begnning of operations	Country of incorporation	Percentage of ownership
Global Financial Funds Corporation	Fiduciary trust services	Sep-95	1995	Panama	100%
Global Capital Corporation	Corporate finance and financial advisory	May-93	1994	Panama	100%
Global Capital Investment Corporation	Purchase of discounted invoices - factoring	Jun-93	1993	British Virgin Island	100%
Global Valores, S. A.	Stock brokers	Aug-02	2002	Panama	100%
Global Bank Overseas y Subsidiarias	Foreign banking	Aug-03	2003	Montserrat	100%
Aseguradora Global, S. A.	Subscription and issuance of insurance policies	Apr-03	2004	Panama	100%
Durale Holdings, S. A.	Ownership and management of real estate	Jan-06	2006	Panama	100%
Progreso, S. A.	Pensión Fund Management	Oct-98	2014	Panama	100%
Anverli Investments Corporation	Ownership and management of real estate	Jan-17	2017	Panama	100%
Banvivienda Assets	Asset management	May-13	2013	Grand Cayman Island	100%
Banvivienda Leasing & Factoring	Financial leasing	Oct-06	2007	Panama	100%

34. Regulatory aspects

The following is a breakdown of the regulatory reserves:

	September 2021	June 2021
Banking reserves		
Dynamic reserve	87,863,198	87,863,198
Foreclosed assets reserve	11,972,321	11,750,034
	99,835,519	99,613,232

Agreement No. 4-2013

The classification of the loan portfolio and reserves for loan losses based on Agreement No. 4-2013:

September 2021

	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	2,350,126,464	336,229,190	134,663,805	20,384,691	93,141,443	2,934,545,593
Consumer loans	2,782,506,836	106,680,558	9,634,863	5,731,255	33,943,307	2,938,496,819
Other loans	146,575,157	-	58	-	-	146,575,215
Total	5,279,208,457	442,909,748	144,298,726	26,115,946	127,084,750	6,019,617,627
Specific reserve	-	20,028,653	14,214,340	8,916,263	70,341,212	113,500,468

June 2021

	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	2,452,012,739	300,335,715	144,958,489	16,208,189	105,414,327	3,018,929,459
Consumer loans	2,751,681,279	101,892,099	8,141,640	4,673,562	38,709,675	2,905,098,255
Other loans	134,797,405	-	2,451	-	-	134,799,856
Total	5,338,491,423	402,227,814	153,102,580	20,881,751	144,124,002	6,058,827,570
Specific reserve	-	17,791,705	17,261,487	5,869,542	77,529,058	118,451,792

The classification of the loan portfolio by maturity profile based on Agreement 4-2013 is as follows:

September 2021

	Current	Delinquent	Overdue	Total
Corporate	2,788,050,766	12,272,787	134,222,040	2,934,545,593
Consumer	2,769,770,175	103,891,911	64,834,733	2,938,496,819
Others	146,265,435	309,722	58	146,575,215
Total	5,704,086,376	116,474,420	199,056,831	6,019,617,627

June 2021

	Current	Delinquent	Overdue	Total
Corporate	2,881,350,791	5,410,010	132,168,658	3,018,929,459
Consumer	2,801,538,178	42,816,497	60,743,580	2,905,098,255
Others	134,797,405	-	2,451	134,799,856
Total	5,817,686,374	48,226,507	192,914,689	6,058,827,570

As of September 30, 2021, loans that do not accrue interest represented an amount of B/.141,867,721 (June 2021: B/.145,274,402).

Accounting treatment for differences between prudential standards and IFRSs

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

- The respective figures for the calculations of the application of IFRS and prudential regulations issued by the Superintendency of Banks of Panama (SBP) will be made and compared.
- When the calculation performed in accordance with IFRSs results in a reserve resulting greater than the one resulting from the use of prudential standards, the IFRS figures will be recorded.
- When using prudential standards result in a higher reserve, IFRS figures will also be recorded in profit and loss and the difference will appropriate retained earnings, which will be moved to a regulatory reserve in equity. If the Bank does not have sufficient retained earnings, this difference will be presented as an accumulated deficit account.
- The regulatory reserve referred to in the preceding paragraph cannot be reversed against retained earnings while there are differences between IFRSs and prudential rules that originated it.

Dynamic reserve

According to Agreement 4-2013, the restrictions on the dynamic reserve establish that the amount cannot be less that the amount established for the previous quarter. As of September 30, 2021, the calculation of the dynamic provision was for B/.87,863,198 (June 2021: B/.87,863,198).

By means of General Resolution SBP-GJD-0007-2020 of the Board of Directors dated July 16, 2020, in Article 1 the obligation to constitute the dynamic provision established in Articles 36, 37 and 38 of Agreement 4-2013 on credit risk is temporarily suspended, in order to provide financial relief to the banks in this market.

Off-balance sheet operations

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

September 2021	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	156,735,551	-	-	-	-	156,735,551
Endorsements and collateral	477,130,830	-	-	-	-	477,130,830
Promissory notes	180,019,353	-	-	-	-	180,019,353
Unused credit lines	509,209,589	-	-	-	-	509,209,589
Total	1,323,095,323	-	-	-	-	1,323,095,323

June 2021	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	121,293,290	-	-	-	-	121,293,290
Endorsements and collateral	482,703,113	-	-	-	-	482,703,113
Promissory notes	169,185,471	-	-	-	-	169,185,471
Unused credit lines	463,726,656	-	-	-	-	463,726,656
Total	1,236,908,530	-	-	-	-	1,236,908,530

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

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

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

Foreclosed assets

As of September 30, 2021, the regulatory reserve on foreclosed assets totals B/.11,972,321 (June 2021: B/.11,750,034) based on what is established in 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 specifies:

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 plan established in the corresponding policy, it will be understood to have incurred in the default of payment, which will have the immediate legal effect of suspending the policy's coverage for up to sixty days.

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

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

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

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

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

Laws and Regulations:

a) *Banking Law*

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

Compliance with the regulatory body

Liquidity ratio

At September 30, 2021, the percentage of the liquidity ratio reported to the regulatory entity, under the parameters of Agreement 4-2008 was 42.94% (June 2021: 49.33%) (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, 2021, the Bank has consolidated equity funds of approximately 16.07% (June 2021: 15.97%) of its risk-weighted assets, in accordance with Agreement 1-2015 and Agreement 3-2016 and the new agreements: Agreement 11-2018 and Agreement 2-2018. (See Note 4.7).

As a consequence of the effects of the global health COVID-19 pandemic decreed by the World Health Organization (WHO), the need and convenience of establishing special temporary measures such as the validity of the appraisal reports used for the constitution of collateral on movable and immovable goods has been revealed through the General Resolution SBP-GJD-0004-2020 of the Board of Directors. Additionally, for the purposes of Article 2 of Agreement 3-2016, all risk assets classified in categories 7 and 8, whose weighting is 125% and 150% respectively, will be temporarily weighted as part of category 6, whose weighting is 100% by means of General Resolution SBP-GJD-0005-2020 of the Board of Directors.

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 International Financial Reporting Standards, specifically IFRS 9 and IFRS 5. The Superintendency of Banks of Panama requires that general license banks apply these prudential standards.

b) *Insurance and Reinsurance Law*

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

c) *Securities Law*

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

d) *Trust Law*

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

e) *Financial Leasing Law*

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

The capital reserve is as follows:

	September 2021	June 2021
Capital reserves	32,324,680	32,324,680
Insurance reserves		
Technical reserve	4,538,876	4,309,034
Legal reserve	5,749,193	5,749,193
	42,612,749	42,382,907

Capital reserve

The subsidiary, Global Bank Overseas, in accordance with the Montserrat banking regulator, provides that every licensed financial institution shall maintain a reserve fund and, from its net earnings for each year, shall transfer to that fund an amount equal to not less than 20 percent of such earnings provided that the amount of the reserve fund is less than 100 percent of the paid-up or, as the case may be, assigned capital of the financial institution. As of September 30, 2021, the reserve was of B/.32,324,680 (June 2021: B/.32,324,680).

Technical reserves

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

Assets admitted free of encumbrances must cover such capital reserves.

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

	Reserve for statistical deviations		Reserve for catastrophic risk and/or contingencies	
	September 2021	June 2021	September 2021	June 2021
Balance at the beginning of the year	2,154,517	1,713,091	2,154,517	1,713,091
Additions	114,921	441,426	114,921	441,426
Balance at the end of the period	2,269,438	2,154,517	2,269,438	2,154,517

Legal reserve

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

Insurance companies are obliged to establish and maintain in the country a reserve fund equivalent to 20% of the net profits before applying income tax, up to constitute a fund of B/.2,000,000 and thereafter 10%, until reaching 50% of the paid-in capital.

The movement of the legal reserve is detailed below:

	September 2021	June 2021
Balance at beginning of the year	5,749,193	5,749,193
Balance at the end of the year	5,749,193	5,749,193

35. COVID-19 Impact

Coronavirus pandemic 2019 (COVID-19) has affected the world economy during 2020 and 2021. Almost all industries faced challenges associated with liquidity issues and specific sectors such as air and cargo transportation, entertainment, retail, restaurants, hospitality and tourism experienced a significant operational decline due to quarantine measures adopted in different countries, including Panama. However, by September 2021, these adverse effects have begun to diminish due to the economic reactivation that has allowed the development of the productive activity, achieving an improvement in the levels of employment, household income, containment of inflation, among others. This situation was periodically evaluated by Management in order to take all the timely measures. The effects on the Bank's performance and financial position are included in the accompanying notes to the Consolidated Financial Statements, where the most significant impact is in the expected loss provisions as disclosed in Note 4.2.1.1 and Note 36 of Modified Loans. In addition, the Bank considered the current economic environment, including the effects of the COVID-19 pandemic on business when preparing the Consolidated Statement of Financial Position, taking into account the best available reliable information and estimates made at the date of preparation and issuance of the consolidated financial statements, related to a pandemic of this magnitude.

The Bank's Management will continue to monitor and modify the operating and financial strategies to mitigate potential risks that could affect its business in the short, medium and long term.

36. Modified loans

Given the unprecedented situation experienced by the Panamanian economy due to the global pandemic situation, the Superintendency of Banks of Panama issued Agreement No. 2-2020. It established additional, exceptional and temporary measures for compliance with the provisions contained in Agreement No. 4-2013 on credit risk, from which relief measures were derived with modification of financial terms and conditions of bank loans, through the creation of a new modality of credits, called "modified loans".

Agreement No. 2-2020 established provisions that applied to both consumer loans and corporate loans. In order to allow the debtor the proper attention to its obligation in the face of the potential or actual deterioration of the possibility of payment, product of the crisis caused by the COVID-19, the Banks were able to modify the conditions of the loans, originally agreed, categorizing the loans as modified; and not considering them as restructured loans according to provisions of Agreement No. 4-2013. This modification could be made at the request of the debtor or at the initiative of the Bank.

The relief measures established for debtors affected by the COVID-19 situation and that met the criteria of Agreement No. 2-2020, included the review of loans terms and conditions, the granting of grace periods and maintenance of the credit ratings assigned at the time the agreement goes into effect.

In addition, Agreement No. 2-2020 allowed the Banks to use up to 80% of the dynamic provision for specific provisions and suspended the application of the contagion mechanism on credit ratings for the duration of the additional, exceptional and temporary measures.

On March 31, 2020, Global Bank Corporation voluntarily agreed to grant an automatic grace period to borrowers affected in their business or personal activities by COVID-19, until June 30, 2020.

On May 4, 2020, the Government of Panama and the Panama Banking Association signed an agreement whereby the members of the Banking Association agreed: (i) to extend such grace period until December 31, 2020 to any borrower whose business or personal activities were affected by COVID-19 and who so requested, which extension applies to mortgage loans, personal loans, auto loans, credit cards, SME loans and commercial loans, and (ii) not to foreclose residential mortgage collateral of borrowers affected by COVID-19 who have loans with extended grace periods.

On June 30, 2020, the Panamanian Government issued Law No. 156, which granted a moratorium until December 31, 2020 on loan payments to any borrower who can prove that COVID-19 affects it in its commercial or personal activities. Under the terms of the statute, the moratorium applied to mortgage loans, personal loans, auto loans, credit cards, SME loans, commercial loans, loans to the transportation sector, loans to the agricultural and livestock sector, and consumer loans.

On July 14, 2020, the Superintendency of Banks of Panama issued Agreement No. 7-2020, which modified Article 4 of Agreement No. 2-2020, in order to extend until December 31, 2020 the period for banks to evaluate the credits affected by the COVID-19 situation and make the corresponding modifications. It was also established that these credits will maintain the risk classification registered at the entry into force of Agreement No. 2-2020, until the Superintendency established the criteria for classification and determination of the provisions that would be applied to the modified credits.

Classification and provisioning of the modified special mention portfolio

On September 11, 2020, Agreement No. 9-2020 was issued, which modified Agreement No. 2-2020 and established the characteristics that modified loans must complied with at the initiative of the banks or at the request of the debtor; and defined that loans classified as normal and special mention, as well as restructured loans that were not in arrears, could be modified in accordance with the guidelines established in the aforementioned Agreement. On the other hand, these modified loans in the normal and special mention category would be classified in the "modified special mention" category for the purpose of determining the respective provisions. The modified restructured loans that were in the substandard, doubtful or uncollectible category would maintain the credit classification they had at the time of their modification with their respective provision.

Agreement No. 9-2020 established the deadline until December 31, 2020 to reevaluate the loans of those debtors whose cash flow and payment capacity were affected by the COVID-19 situation, as well as those loans that had not been previously modified and that at the original time of their modification were up to 90 days past due.

Additionally, Agreement No. 9-2020 established the requirement for qualitative and quantitative disclosures about loans classified in the modified special mention category and their impact on determining the allowance for expected losses, as well as on the bank's current and future cash flows.

On October 21, 2020, the Superintendency of Banks of Panama issued Agreement No. 13-2020, which modified Agreement No. 2-2020 establishing additional, exceptional and temporary measures on credit risk and also, an additional term for financial relief measures.

Banks would have until June 30, 2021 to continue evaluating the credits of those debtors whose cash flow and payment capacity were affected by the COVID-19 situation and that at the original time of its modification were up to 90 days in arrears.

Likewise, banks could make modifications to those loans that have not been previously modified, whose cash flow and payment capacity were still affected by the COVID-19 situation and that are not more than 90 days past due.

During the period January 1st through June 30, 2021, the Bank would not foreclose on the collateral for the modified loans.

These changes were due to the health, economic, financial and social consequences that the spread of COVID-19 has generated. In view of this reality and the economic recession it has caused, many debtors are unable to meet or continue to adequately meet their bank obligations, due to the potential or actual deterioration of their ability to pay.

In accordance with Article No. 2 of Agreement No. 13-2020, modified restructured loans that were in the substandard, doubtful or uncollectible category will maintain the credit classification they had at the time of modification. As of September 30, 2021, the portfolio classified as "Special Mention Modified" amounted to B/.1,164,336,783 (June 2021: B/.1,277,670,834).

September 2021	Normal	Special mention	Total
Corporate loans	287,634,138	51,606,370	339,240,508
Consumer loans	674,518,699	76,445,341	750,964,040
Other loans	309,722	-	309,722
Accrued interest receivable	63,297,856	10,524,657	73,822,513
Total	1,025,760,415	138,576,368	1,164,336,783
Individual and collective impairment allowance	(51,751,876)	(13,002,688)	(64,754,564)
Net carrying value	974,008,539	125,573,680	1,099,582,219

June 2021	Normal	Special mention	Total
Corporate loans	303,170,254	51,123,116	354,293,370
Consumer loans	766,771,583	82,472,299	849,243,882
Other loans	309,722	-	309,722
Accrued interest receivable	63,413,073	10,410,787	73,823,860
Total	1,133,664,632	144,006,202	1,277,670,834
Individual and collective impairment allowance	(48,788,873)	(11,349,865)	(60,138,738)
Net carrying value	1,084,875,759	132,656,337	1,217,532,096

In accordance with Agreement No. 9-2020, on the modified special mention loan portfolio, banks must constitute a provision equivalent to the greater value between the provision according to IFRS of the modified special mention portfolio and a generic provision equivalent to three percent (3%) of the gross balance of the modified loan portfolio, including uncollected accrued interest and capitalized expenses; being able to exclude from this calculation those modified loans guaranteed with deposits pledged in the same Bank up to the guaranteed amount. For this purpose, the following scenarios will be considered:

- In cases in which the IFRS provision is equal to or higher than the 3% generic provision established in this article, the Bank shall account for the corresponding IFRS provision in the results of the year; and,
- In cases in which the IFRS provision is lower than the 3% generic provision established in this article, the Bank shall book such IFRS provision in results and the difference shall be recorded in results or in a regulatory reserve in equity, taking into consideration the following aspects:
    - When the IFRS provision is equal to or greater than 1.5%, the Bank shall record such IFRS provision in the income statement. Likewise, the difference to complete the 3% of the generic provision established in this article shall be recorded in a regulatory reserve in the equity; and
    - When the IFRS provision is less than 1.5%, the Bank shall make sure to complete this percentage and record it in the statement of profit or loss. Likewise, the difference to complete the 3% of the generic provision established in this article shall be recorded in a regulatory reserve in equity.

In accordance with the requirements of Article No. 4-E of Agreement No. 9-2020, the following is a detail of the "Modified Special Mention" category loan portfolio and its respective provisions and regulatory reserves as of September 30, 2021 and June 30, 2021, classified according to the three-step model of IFRS 9.

September 2021	**ECL during the next 12 months**	**ECL during the life time (not impaired)**	**ECL during the life time (impaired)**	**Total**
Modified special category loans				
Modified loans	**554,921,702**	**492,381,008**	**43,211,560**	**1,090,514,270**
Consumer	299,949,401	410,602,605	40,412,034	750,964,040
Corporate	254,972,301	81,778,403	2,799,526	339,550,230
(+) Accrued interest receivable	36,427,931	35,200,062	2,194,520	73,822,513
Subtotal	591,349,633	527,581,070	45,406,080	1,164,336,783
(-) Collateral deposits	777,748	435,412	4,400	1,217,560
Total portfolio subject to provisions of Agreement No. 9-2020	590,571,885	527,145,658	45,401,680	1,163,119,223
IFRS provisions				
IFRS 9 provisions on principal's balance	3,343,859	31,879,412	25,387,540	60,610,811
IFRS 9 provisions in interest balance	262,675	1,686,558	2,194,520	4,143,753
	3,606,534	33,565,970	27,582,060	64,754,564
Total provisions and reserves				64,754,564

June 2021	**ECL during the next 12 months**	**ECL during the life time (not impaired)**	**ECL during the life time (impaired)**	**Total**
Modified special category loans				
Modified loans	**712,090,584**	**445,346,024**	**46,410,366**	**1,203,846,974**
Consumer	453,931,783	351,443,133	43,868,966	849,243,882
Corporate	258,158,801	93,902,891	2,541,400	354,603,092
(+) Accrued interest receivable	44,081,458	27,289,073	2,453,329	73,823,860
Subtotal	756,172,042	472,635,097	48,863,695	1,277,670,834
(-) Collateral deposits	953,548	393,518	18,035	1,365,101
Total portfolio subject to provisions of Agreement No. 9-2020	755,218,494	472,241,579	48,845,660	1,276,305,733
IFRS provisions				
IFRS 9 provisions on principal's balance	4,163,514	28,068,140	23,949,000	56,180,654
IFRS 9 provisions in interest balance	268,551	1,236,203	2,453,330	3,958,084
	4,432,065	29,304,343	26,402,330	60,138,738
Total provisions and reserves				60,138,738

As of September 30, 2021, the IFRS reserve of the modified special mention category loans amounts to B/.64,754,564 (June 2021: B/.60,138,738) or 5.57% (June 2021: 4.71%) of the total portfolio subject to provisions, which covers in excess of the regulatory requirement of maintaining a 3% reserve on these loans, which is B/.34,893,577 (June 2021: B/.38,289,172).

On June 21, 2021 the banking flexibility agreement was announced as a result of a joint effort of the National Government, through the Superintendency of Banks of Panama, and the Panamanian Banking Association.

The banking flexibility agreement extended the deadline until September 30, 2021 for customers who have not yet restructured their commitments to do so. Affected clients must approach their bank before September 30, 2021, to support their economic situation and reach an agreement; and depending on the economic reality of each person, the payment agreement and a possible grace period could be extended beyond December 31, 2021.

On June 21, 2021 and according to notes SBP-DR-0069-2021, SBP-DR-0070-2021 and SBP-DR-0071-2021, the Superintendency of Banks of Panama issued new guidelines for the treatment of loans modified through Agreement No. 2-2021 and General Resolutions of the Board of Directors No. 3-2021 and 4-2021.

Agreement No. 2-2021 repeals Agreement No. 2-2020 in all its parts and subsequent amendments and establishes new guidelines and parameters that will be applicable to modified loans classified in the modified special mention category, and to those modified loans reestablished pursuant to Agreement No. 4-2013. This new regulation allows banking entities to separate loan portfolios according to their financial viability in order to identify those that will be able to renegotiate new terms and conditions.

The General Resolution of the Board of Directors No. 3-2021 establishes the parameters and guidelines for the reporting of modified loans, with the purpose that the referred information allows the follow-up and control of the portfolio of modified loans held by the banking system.

The General Resolution of the Board of Directors No. 4-2021 establishes guidelines for the restructuring of loans of debtors: (a) individuals (mortgage, personal loans, credit cards, cars) or (b) companies, which have shown willingness to comply with their obligation despite being in a temporary liquidity constraint. The purpose of the General Resolution is to promote a payment culture, which is why it establishes the guidelines to be followed by the banks for the modified loans of debtors who: (i) to date have not contacted the banking entity; (ii) or who have contacted the bank and their current financial condition does not allow them to comply with the characteristics to be subject to a restructuring; (iii) as well as those credits modified under Agreement No. 2-2020 of debtors who due to their situation require again to restructure their obligations.

During the month of September 2021, approximately 51.40% (B/.470 million) of the modified portfolio has made all contractual payments for that month. In addition, partial payments have been received on the modified portfolio. Below is the percentage of the modified portfolio with partial or full payments, with respect to its payment plan, for the month of September.

September 2021

	Personal	Credit cards	Cars	Mortgages	Commercial	Total
% of balance with payments of modified loans	56.42%	43.73%	60.59%	66.06%	74.44%	65.66%

The following is the classification of modified loans based on the General Resolution of the Board of Directors No. 3-2021 as of September 30, 2021:

September 2021	Modified Normal	Modified Special mention	Modified Subnormal	Modified Doubtful	Modified Uncollectible	Total
Corporate loans	56,059,770	24,363,347	246,706,102	8,848,422	3,262,867	339,240,508
Consumer loans	322,488,786	6,304	372,119,404	16,992,145	39,357,401	750,964,040
Other loans	-	-	309,722	-	-	309,722
Total	378,548,556	24,369,651	619,135,228	25,840,567	42,620,268	1,090,514,270
Individual and collective impairment allowance	(15,146,366)	(176,902)	(31,501,683)	(1,732,577)	(16,197,036)	(64,754,564)
Net carrying value	363,402,190	24,192,749	587,633,545	24,107,990	26,423,232	1,025,759,706

Classification of loans modified by IFRS 9 Stage

The following is the classification of modified loans by Stage according to the expected loss methodology used by the Bank:

September 2021	Stage 1	Stage 2	Stage 3	Total
Gross amount	554,921,702	492,381,008	43,211,560	1,090,514,270
Individual and collective impairment allowance	(3,606,534)	(33,565,970)	(27,582,060)	(64,754,564)
Net carrying value	551,315,168	458,815,038	15,629,500	1,025,759,706

June 2021	Stage 1	Stage 2	Stage 3	Total
Gross amount	713,688,996	477,531,842	48,955,910	1,240,176,748
Individual and collective impairment allowance	(4,484,028)	(38,770,541)	(26,890,063)	(70,144,632)
Net carrying value	709,204,968	438,761,301	22,065,847	1,170,032,116

Determining Significant Increased Risk of Modified Loans

The extension of loan payments or modified loans established by Agreement No. 2-2020 does not automatically translate into those loans having suffered a significant increase in credit risk given that a significant portion of these reliefs address temporary liquidity events generated by the closure or economic downturn caused by the pandemic.

As part of the expected loss methodology, the Bank has mechanisms to identify the significant increase in risk generally applicable to the loan portfolio, based on quantitative and qualitative methodologies that incorporate, among other components, behavioral scoring models for consumer debtors and internal rating models for corporate debtors.

The assessment for the recognition of expected credit losses over the life of the modified loans considers credit risk based on the best available quantitative and qualitative information about the current circumstances of the borrowers and the COVID-19 impact.

As time passes and returns to the new normal situation, the Bank obtains more information from the borrowers, which will complement the analysis and identification of increased risk for the modified loans, either by segment or on an individual basis. In order to identify the significant increase in credit risk for modified loans, the Bank considers the following factors associated with the current COVID-19 situation:

1. For the consumer portfolio, the affectation of customers is determined through conditions related to the aging of the last payment received and causes such as; termination of contracts, suspended contract and decrease in income.
2. With respect to the corporate portfolio and other loans, customers are evaluated on a case-by-case basis to determine the impact of COVID-19 on the line of business, the economic activity in which it operates and vulnerability conditions that may be identified in the framework of future economic conditions.

The Bank's cash flows have been reduced as a result of the aforementioned moratoriums, as shown in the following table detailing the percentage of the value of the modified loans, including interest, do not present payment in their installments counted from the last payment of the installment recorded at the time of the loan modification.

September 2021	Up to 90 days	Between 91 and 120 days	Between 121 and 180 days	Between 181 and 360 days	More than 360 days
Corporate loans	24%	2%	4%	21%	49%
Consumer loans	13%	1%	2%	8%	77%

June 2021	Up to 90 days	Between 91 and 120 days	Between 121 and 180 days	Between 181 and 360 days	More than 360 days
Corporate loans	10%	2%	16%	20%	50%
Consumer loans	12%	2%	4%	16%	64%

Collateral for modified loan

The Bank maintains collateral to reduce credit risk and to ensure the collection of its financial assets exposed to credit risk. The main types of collateral taken with respect to the various modified loans are presented below:

September 2021	Consumer				Corporate	
	Personal	Credit cards	Cars	Mortgages	Commercial	Total Loans
Balance of modified loans	90,233,160	51,463,338	64,254,783	545,006,443	339,556,546	1,090,514,270
Collateral	122,937,807	177,405	79,174,705	746,609,674	767,767,568	1,716,667,159
Exposure % subject to collateral requirements	136%	0%	123%	137%	226%	157%

June 2021	Consumer				Corporate	
	Personal	Credit cards	Cars	Mortgages	Commercial	Total Loans
Balance of modified loans	102,764,622	56,428,649	75,489,853	617,928,886	387,564,738	1,240,176,748
Collateral	138,516,303	358,935	97,429,383	845,159,305	860,514,324	1,941,978,250
Exposure % subject to collateral requirements	135%	1%	129%	137%	222%	157%

As part of the Bank's risk management, both collective and individual analyses of the condition of the loan portfolio have been developed, including the segmentation of the portfolio with the objective of identifying the employment situation or economic activity of each debtor, and being able to determine who will or will not be able to comply with their financial obligations. Thus, recognizing whether there has been a significant increase in risk and classifying the loans according to the corresponding stage of impairment. From this management, policies, processes and procedures of continuous evaluation have been derived based on the established strategies.

Additionally, different agreements have been reached with clients according to the individual analysis of their capacity to generate the cash flows necessary to meet their obligations.

Regarding the support programs according to the individual situation of each client, to help them to resume payment of their loans, the Bank offered financial relief measures that included: extension of payment dates, grace periods to capital, adjustment in installments according to the payment capacity of the clients.

The COVID-19 pandemic has caused economic and financial disruptions that negatively affected the banking business, its financial condition, liquidity and results of operations. The duration of the crisis (a year and a half) has also negatively impacted the economic evolution of the country and the banking business. A high level of uncertainty remains due to factors that cannot be foreseen, including the duration and development of the pandemic and how it may affect the proper functioning of economic activities in the coming months. However, the Bank's response plans have been effective and it continues managing them to overcome the effects of the pandemic on the Bank's performance. The Bank has been able to identify much of the impact of the pandemic on its customers and counterparties, and this information represents a key factor in managing the resulting crisis.

37. Approval of the consolidated financial statements

The consolidated financial statements of Global Bank Corporation and Subsidiaries for the period ended September 30, 2021 were authorized by Management for issuance on October 29, 2021.

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