

Global Bank Corporation and Subsidiaries

Interim condensed consolidated financial statements as at
March 31, 2019

Global Bank Corporation y Subsidiarias

Interim Condensed Consolidated Financial Statement as at March 31, 2019

Content	Page
Condensed consolidated statement of financial position	1
Condensed consolidated statement of profit or loss	2
Condensed consolidated statement of profit or loss and other comprehensive income	3
Condensed consolidated statement of changes in equity	4
Condensed consolidated statement of cash flows	5
Notes to the condensed consolidated financial statements	6- 81

Global Bank Corporation and Subsidiaries

Condensed consolidated statement of financial position

At March 31, 2019

(In balboas)

	Notes	March 2019	June 2018
Assets			
Cash and bank deposits	7, 15	492,822,087	440,947,754
Securities purchased under resale agreements	6,8	5,025,049	3,027,052
Investments in securities	6, 9, 15	823,867,690	785,081,235
Loans	6, 10	6,383,105,177	4,949,965,635
Property, furniture, equipment and improvements	11	201,080,367	157,628,201
Other assets	6, 12, 29	463,463,309	218,642,547
Total assets		8,369,363,679	6,555,292,424
Liabilities and Equity			
Liabilities			
Client deposits	6, 14	4,698,031,960	3,474,058,040
Bank deposits		124,636,885	69,286,745
Securities sold under repurchase agreements	13	72,082,860	67,096,800
Obligations with financial institutions	7, 9, 15	872,359,168	697,979,013
Marketable securities	16	84,212,812	20,658,000
Corporate bonds	17	1,375,550,725	1,283,771,949
Subordinated bonds	18	17,347,604	17,437,777
Perpetual bonds	19	115,802,719	115,713,827
Other liabilities	6, 20, 21	227,126,971	197,762,796
Total liabilities		7,587,151,704	5,943,764,947
Equity			
Common shares	22	267,927,793	98,202,657
Excess paid-in capital	26	4,667,071	2,325,817
Capital reserve		41,302,844	33,590,394
Regulatory reserved	35	97,359,982	90,582,283
Retained earnings		370,954,285	386,826,326
Total equity		782,211,975	611,527,477
Total liabilities and equity		8,369,363,679	6,555,292,424

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

Global Bank Corporation and Subsidiaries

Condensed consolidated statement of profit or loss for the nine months ended March 31, 2019

(In balboas)

	Notes	March 2019	March 2018
Interest income	6	313,285,193	270,977,758
Interest expense	6	<u>(199,376,694)</u>	<u>(160,144,880)</u>
Net interest income		<u>113,908,499</u>	<u>110,832,878</u>
Commission income		44,494,020	35,917,823
Commission expense		<u>(10,693,431)</u>	<u>(8,841,073)</u>
Net commission income	23	<u>33,800,589</u>	<u>27,076,750</u>
Net interest and commission income	23	147,709,088	137,909,628
Other income	24	<u>1,402,476</u>	<u>8,247,272</u>
		<u>149,111,564</u>	<u>146,156,900</u>
Other expenses			
Impairment allowance	10	9,173,485	9,095,331
Reversal of provision for the impairment of investments		(340,105)	-
Salaries and other compensation	6	40,845,879	35,931,393
Professional fees		5,507,950	3,820,185
Depreciation and amortization	11	10,007,515	8,936,868
Marketing and advertising		2,583,768	2,202,206
Maintenance and repairs		6,932,879	7,030,170
Leases	27	3,981,832	3,714,115
Multiple taxes		4,517,257	3,564,929
Other expenses	25	<u>17,828,268</u>	<u>13,905,191</u>
		<u>101,038,728</u>	<u>88,200,388</u>
Profit before income tax		<u>48,072,836</u>	<u>57,956,512</u>
Income tax:			
Current		6,077,049	6,664,998
Differed		<u>(173,204)</u>	<u>(1,646,980)</u>
Income tax	31	<u>5,903,845</u>	<u>5,018,018</u>
Profit for the period		<u>42,168,991</u>	<u>52,938,494</u>

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

Global Bank Corporation and Subsidiaries

Condensed consolidated statement of profit or loss and other comprehensive income for the nine months ended March 31, 2019

(In balboas)

	March 2019	March 2018
Profit for the period	<u>42,168,991</u>	<u>52,938,494</u>
Other comprehensive income:		
Items that can be reclassified later to profit or loss:		
Net amount transferred to profit or loss	(4,260,360)	1,881,726
Provision for investments	3,452,090	-
Net changes in the valuation of investments at fair value through other comprehensive income	<u>9,365,852</u>	<u>(7,096,897)</u>
Other comprehensive income for the period	<u>8,557,582</u>	<u>(5,215,171)</u>
Total comprehensive income for the period	<u>50,726,573</u>	<u>47,723,323</u>

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

Global Bank Corporation and Subsidiaries

Condensed consolidated statement of changes in equity for the nine months ended March 31, 2019 (In balboas)

	Notes	Total shareholders' equity	Common shares	Excess paid-in capital	Capital reserves	Regulatory reserves	Fair value reserves	Retained earnings
Balance at June 30, 2017		<u>576,531,434</u>	<u>98,202,657</u>	<u>2,619,734</u>	<u>41,505,449</u>	<u>67,282,999</u>	<u>5,996,634</u>	<u>360,923,961</u>
Profit for the period		52,938,494	-	-	-	-	-	52,938,494
Net changes in the valuation of investments at fair value through other comprehensive income		<u>(5,215,171)</u>	-	-	<u>(5,215,171)</u>	-	-	-
Total comprehensive income for the period		<u>47,723,323</u>	-	-	<u>(5,215,171)</u>	-	-	<u>52,938,494</u>
Excess paid-in capital - share option plan for employees	26	(416,047)	-	(416,047)	-	-	-	-
Issuance of common shares		5,018,004	5,018,004	-	-	-	-	-
Dividends paid - common shares	22	(17,363,031)	-	-	-	-	-	(17,363,031)
Complementary tax		(1,218,793)	-	-	-	-	-	(1,218,793)
Legal reserve	35	-	-	-	-	825,238	-	(825,238)
Balance at March 31, 2018		<u>610,274,890</u>	<u>103,220,661</u>	<u>2,203,687</u>	<u>36,290,278</u>	<u>68,108,237</u>	<u>5,996,634</u>	<u>394,455,393</u>
Balance at June 30, 2018		611,527,477	98,202,657	2,325,817	32,324,680	90,582,283	1,265,714	386,826,326
Effects of IFRS adoption		<u>(29,310,192)</u>	-	-	-	-	<u>(845,132)</u>	<u>(28,465,060)</u>
Balance at July 1, 2018		<u>582,217,285</u>	<u>98,202,657</u>	<u>2,325,817</u>	<u>32,324,680</u>	<u>90,582,283</u>	<u>420,582</u>	<u>358,361,266</u>
Profit for the period		42,168,991	-	-	-	-	-	42,168,991
Provision for investments		3,452,090	-	-	-	-	3,452,090	-
Net changes in the valuation of investments at fair value through other comprehensive income		<u>5,105,492</u>	-	-	-	-	<u>5,105,492</u>	-
Total comprehensive income for the period		<u>50,726,573</u>	-	-	-	-	<u>8,557,582</u>	<u>42,168,991</u>
Excess paid-in capital	26	2,274,864	-	2,274,864	-	-	-	-
Share option plan for employees		66,390	-	66,390	-	-	-	-
Issuance of common shares	22	169,725,136	169,725,136	-	-	-	-	-
Dividends paid - common shares	22	(20,600,338)	-	-	-	-	-	(20,600,338)
Complementary tax		(1,043,413)	-	-	-	-	-	(1,043,413)
Dynamic provision		-	-	-	-	11,368,079	-	(11,368,079)
Legal reserve	35	-	-	-	-	11,613,199	-	(11,613,199)
Excess regulatory reserve		(1,154,522)	-	-	-	-	-	(1,154,522)
Reversal of excess regulatory reserve	35	-	-	-	-	(16,203,579)	-	16,203,579
Balance at March 31, 2019		<u>782,211,975</u>	<u>267,927,793</u>	<u>4,667,071</u>	<u>32,324,680</u>	<u>97,359,982</u>	<u>8,978,164</u>	<u>370,954,285</u>

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

Global Bank Corporation and Subsidiaries

Condensed consolidated statement of cash flows
for the nine months ended March 31, 2019
(In balboas)

	Notes	March 2019	March 2018
Cash flows from operating activities:			
Profit for the year		42,168,991	52,938,494
Adjustments for:			
Depreciation and amortization	11, 12 b	10,007,515	8,748,113
Gain on sale of property, furniture and equipment	11	(8,524)	(13,468)
Loss (gain) on sale of securities	9.1, 24	4,260,360	(1,881,726)
Net gain from revaluation of financial instruments	24	(199,560)	-
Net loss in financial instruments	24	(11,720,666)	-
Impairment allowance	10	9,173,485	9,095,331
Provision for investments, net		552,000	-
Income tax	31	340,105	-
Net interest and commission income	10, 23	5,903,845	5,018,018
Interest expenses	23	(313,285,193)	(279,092,129)
Share option plan for employees		199,376,694	160,144,880
Utilities adjustment after closing		2,341,254	(416,047)
Effect from IFRS adoption		(1,154,522)	-
Deferred tax		(28,465,060)	-
		(9,966,102)	-
		(90,675,378)	(45,458,534)
Changes in:			
Deposits over 90 days		72,490,503	(1,385,000)
Securities purchased under resale agreements	8	(1,997,997)	8,919
Loans	10	(89,546,286)	79,280,282
Other assets		26,932,806	(1,833,186)
Client deposits	14	(94,811,295)	(326,162)
Bank deposits		6,032,816	(81,067,185)
Other liabilities		(13,988,832)	17,997,442
Cash (used in) generated from operations		(185,563,663)	(32,783,424)
Income tax paid		(4,919,488)	(5,220,362)
Interest received		284,570,765	244,511,653
Interest paid		(180,132,782)	(137,581,943)
Net cash (used in) generated from operating activities		(86,045,168)	68,925,924
Cash flows from investment activities:			
Acquisition of securities at fair value through other comprehensive income	9.1	(161,777,721)	(220,004,397)
Sale of securities at fair value through other comprehensive income	9.1	207,118,311	236,200,249
Purchase of investments at fair value through profit or loss	9.2	(904,333)	-
Redemption of investments at fair value through profit or loss	9.2	2,000,000	-
Purchase of investments at amortized cost	9.3	(21,080,963)	(34,478,934)
Redemptions of investments at amortized cost	9.3	23,630,518	1,577,986
Purchase of property, furniture and equipment	11	(15,693,780)	(24,640,266)
Proceeds from the sales of property, furniture and equipment	11	63,831	1,157,318
Net cash flow from acquisition of subsidiary	32	125,499,566	-
Net cash flows generated from (used in) investment activities		158,855,429	(40,188,044)
Cash flows from financing activities:			
Payments made from transactions of repurchase agreements	13	(9,160,999)	29,560,000
Obligations received from financial institutions	15	1,404,210,138	1,041,909,995
Obligations paid to financial institutions	15	(1,373,659,704)	(1,016,478,062)
Proceeds from issuance of marketable securities	16	50,661,965	17,431,000
Payments from redemption of marketable securities	16	(67,749,000)	(20,900,000)
Proceed from the issuance of bonds	17, 18, 19	9,942,552	2,986,000
Redemption of bonds	17, 18, 19	(89,743,406)	(133,597,826)
Dividends paid - common shares	22	(20,600,338)	(17,363,031)
Proceed from the issuance of common shares	22	109,725,136	5,018,004
Complementary tax		(1,043,413)	(1,218,793)
Net cash flows generated from (used in) financing activities		12,582,931	(92,652,713)
Net increase (decrease) in cash and cash equivalents		85,393,192	(63,914,833)
Cash and cash equivalents at the beginning of the period		382,955,937	440,347,604
Cash and cash equivalents at end of the period	7	468,349,129	376,432,771

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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 is located at 50th Street, Torre Global Bank, Panama, Republic of Panama.

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

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

The main activity of the Bank and its Subsidiaries is described in Note 34.

2. Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements as at June 30, 2018, and for the period then ended, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

3. Accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the audited consolidated financial statements as at June 30, 2018, as are the methods of computation, except for the adoption of IFRS 9 - Financial Instruments, with initial application date as of July 1, 2018, which application impact is described in policy 3.1. In addition to this standard, there are no effective standards or interpretations as of July 1, 2018, that have had a significant effect on this interim condensed consolidated financial statements.

The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective as at March 31, 2019, and it is assessing the possible impact of these new standards on the interim condensed consolidated financial statements.

3.1 IFRS 9 – Financial Instruments

3.1.1 Determination of impact on adoption

The Bank has adopted IFRS 9 Financial Instruments issued in July 2014 with an initial application date of July 1, 2018. The requirements of IFRS 9 represent a significant change with respect to IAS 39 Financial Instruments: Recognition and Measurement.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

The key changes in the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below:

IFRS 9 contains three main classification categories for financial assets: measured at amortized cost (AC), at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). The classification of IFRS 9 is generally based on the business model in which a financial asset and its contractual cash flows are managed. The standard eliminates the existing categories of IAS 39 of held-to-maturity, loans and accounts receivable and available for sale.

IFRS 9 retains to a large extent the requirements in IAS 39 for the classification of financial liabilities. However, although according to IAS 39 all changes in the fair value of the liabilities designated under the fair value option were recognized in profit or loss, according to IFRS 9, changes in fair value are generally presented as follows:

- The amount of change in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and
- The remaining amount of change in fair value is presented in profit or loss.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a model of "expected credit loss". The new impairment model also applies to certain loan commitments and financial guarantee contracts, but not to equity investments.

Transition

- If an investment security had a low credit risk at the date of initial application of the IFRS 9, then the Bank has a
- Assumed that the credit risk on the asset has not increased significantly since its initial recognition.

The adoption of IFRS9 has resulted in changes in accounting policies for the recognition, classification and measurement of financial assets and liabilities and the impairment of financial assets. IFRS 9 also significantly modifies IFRS 7 "Financial Instruments - Disclosure". Consequently, for IFRS 7 disclosures, they have also only been applied to the notes of the current period. The disclosed notes of the comparative period are the same as those made in the previous year.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

The details about the changes and the implications related from the adoption of IFRS 9 are shown below.

Classification and measurement of financial assets and financial liabilities at initial recognition of IFRS 9

The following table shows the original measurement categories under IAS 39 as at June 30, 2018, and the new measurement categories under IFRS 9 as of July 1, 2018 for each class of the Bank's financial assets and financial liabilities:

	Original measurement category under IAS 39	Carrying value June 30, 2018	New measurement category under IFRS 9	Reclasification	Carrying value July 1, 2018
Cash and deposits in banks	AC	440,947,754	AC	-	440,947,754
Financial assets - Securities purchased under resale agreements	AC	3,027,052	AC	-	3,027,052
Financial assets - Securities available-for-sale	FVOCI	466,716,054	FVOCI	(30,869,659) FVPL	435,846,395
Financial assets - Securities held to maturity	AC	318,365,181	AC	-	318,365,181
Financial assets - Loans	AC	4,949,965,635	AC	-	4,949,965,635
Financial liabilities - Client deposits	AC	3,474,058,040	AC	-	3,474,058,040
Financial liabilities - Bank deposits	AC	69,286,745	AC	-	69,286,745
Financial liabilities - Securities sold under repurchase agreements	AC	67,096,800	AC	-	67,096,800
Financial liabilities - Obligations with financial institutions	AC	697,979,013	AC	-	697,979,013
Financial liabilities - Marketable securities (VCNs for its initials in Spanish)	AC	20,658,000	AC	-	20,658,000
Financial liabilities - Corporate bonds	AC	1,283,771,949	AC	-	1,283,771,949
Financial liabilities - Subordinated bonds	AC	17,437,777	AC	-	17,437,777
Financial liabilities - Perpetual bonds	AC	115,713,827	AC	-	115,713,827

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

The classification of the assets subject to expected losses and the provisions established in accordance with the accounting policies adopted to comply with IFRS 9 on July 1, 2018 is as follows.

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance as of March 31, 2019				
Loans	5,537,685,854	782,137,894	179,472,819	6,499,296,567
Allowance for expected losses	16,341,191	35,061,218	48,778,257	100,180,666
Net loans	<u>5,521,344,663</u>	<u>747,076,676</u>	<u>130,694,562</u>	<u>6,399,115,901</u>
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance as of March 31, 2019				
Investments at amortized cost	337,416,421	-	-	337,416,421
Allowance for expected losses	223,741	-	-	223,741
Net investments at amortized cost	<u>337,192,680</u>	<u>-</u>	<u>-</u>	<u>337,192,680</u>
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance as of March 31, 2019				
Investments at fair value through other comprehensive income	453,707,608	2,994,150	-	456,701,758
Allowance for expected losses	2,526,185	31,012	-	2,557,197
Net investments at fair value through other comprehensive income	<u>451,181,423</u>	<u>2,963,138</u>	<u>-</u>	<u>454,144,561</u>

The following table analyses the impact, net of deferred tax, of transition to IFRS 9 on retained earnings and other comprehensive income.

	<u>Impact of applying IFRS 9</u>
Net changes of financial instruments measurement:	
Closing balance under IAS 39 (June 30, 2018)	-
Reclassification of investments from available-for-sale to fair value through profit or loss	(3,966,175)
Opening balance under IFRS 9 (July 1, 2018)	<u>(3,966,175)</u>
Retained earnings:	
Closing balance under IAS 39 (June 30, 2018)	383,832,415
Reclassification of investments	3,966,175
Recognition of expected credit losses on loans	(38,399,837)
Recognition of expected credit losses on investments	(3,121,043)
Deferred tax	9,089,645
Opening balance under IFRS 9 (July 1, 2018)	<u>355,367,355</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

3.1.2 Accounting policies

3.1.2.1 *Financial assets*

3.1.2.1.1 Accounting policies used before July 1, 2018

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

3.1.2.1.1.1 Securities purchased under resale agreements

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

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

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

3.1.2.1.1.2 Securities available-for-sale

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

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

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

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

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

3.1.2.1.1.3 Securities held to maturity

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

3.1.2.1.1.4 Loans

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

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

3.1.2.1.1.5 Financial leasing

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

3.1.2.1.1.6 Derecognition of financial assets

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

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

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

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

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

3.1.2.1.2 Accounting policies used after July 1, 2018

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 (SPPI) on the principal amount outstanding are subsequently measured at amortized cost. Debt instruments held in a business model whose objective is achieved by both collecting the contractual cash flows and selling debt instruments and that they have contractual cash flows that are SPPI are subsequently measured at fair value through other comprehensive income (FVOCI). All other debt instruments (for example, debt instruments managed on a fair value basis, or available-for-sale) and equity investments are subsequently measured at fair value through profit or loss (FVTPL).

However, the following election or irrevocable designation can be made at the initial recognition of a financial asset on an asset-by-asset basis

- You can irrevocably choose to present subsequent changes in the fair value of a capital investment that is not held for trading, or a contingent consideration recognized by an acquirer in a business combination to which IFRS 3 - "Combinations of Business " applies, in other comprehensive results; and
- A debt instrument that complies with the amortized cost or with the FVTOCI criteria measured at FVTPL can be irrevocably designated if doing so eliminates or reduces it significantly, causing an accounting mismatch.

3.1.2.1.2.1 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 the management of its financial assets and its contractual cash flow characteristics.

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

3.1.2.1.2.2 Evaluation of the business model

The Bank evaluates the objective of the business model in which the financial asset is maintained at the portfolio level, since it reflects the way in which the business is managed and the information is provided to Management. The information considers the following:

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

An evaluation of business models for managing financial assets is fundamental for the classification of a financial asset. The Bank determines the business model at a level that reflects how groups of financial assets 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 done at a higher level of aggregation instead of instrument by instrument.

In the initial recognition of a financial asset, it is determined if the recently recognized financial assets are part of an existing business model or if they reflect the beginning of a new business model. The Bank re-evaluates 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 any changes in its business model.

3.1.2.1.2.3 Evaluation of contractual cash flows if they are only capital and interest payments

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

SPPI contractual cash flows are consistent with a basic loan agreement. Contractual terms that introduce exposure to risks or volatility in contractual cash flows not related to a basic loan agreement, such as exposure to changes in stock prices or prices of commodities, do not result in SPPI contractual cash flows. A financial asset originated or acquired can be a standard credit agreement without distinction if it is a loan in its legal form.

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

- Contingent events that would change the amount and timing 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 non-recourse assets); and characteristics that modify the consideration of the time value of money (for example, periodic readjustment of interest rates).

3.1.2.1.2.4 Financial assets at fair value through other comprehensive income (FVTOCI)

These securities are composed 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 recorded 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 on specified dates to the cash flows 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 condensed consolidated statement of changes in equity until they are realized. Gains and losses realized on the sale of securities 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 profit or loss, but may be transferred within equity.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

3.1.2.1.2.5 Financial assets at amortized cost

Financial assets at amortized cost represent securities and loans whose objective is to be kept in order to obtain contractual cash flows over 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 to obtain the contractual cash flows, and
- The contractual terms 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.

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

Financial assets and liabilities at fair value through profit or 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 hedges or that do not qualify for hedge accounting.

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

3.1.2.1.2.7 Reclassification

If the business model under which the Bank maintains the 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 that results in the reclassification of the Bank's financial assets.

During the current fiscal year and the previous accounting period there were no changes in the business model under which the Bank owns financial assets and, therefore, no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy for the modification and derecognition of financial assets and liabilities described below.

3.1.2.1.2.8 Derecognition of assets

A financial asset (or, if applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized 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, either it has transferred substantially all the risks and benefits of the asset, or it has neither transferred nor retained substantially the risks and benefits of the asset, but has transferred the control of the asset.
- The Bank reserves the right to receive cash flows from the asset, but has assumed an obligation to pay cash flows received in full and without material delay to a third party under a "pass-through" agreement.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

- When the Bank has transferred its rights to receive cash flows from an asset or has entered into a transfer agreement, and neither all the risks and benefits of the asset have been transferred nor retained, nor the control of the asset transferred, the asset is recognized to the extent that the Bank's participation in assets continues. In this 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 continuous participation that takes the form of a guarantee on the transferred asset is measured by the lower of the original carrying value of the asset and the maximum value of consideration that the Bank could be obliged to pay.

The Bank carries out transactions through which it transfers recognized assets in its condensed consolidated statement of financial position, but retains all or substantially all of the risks and benefits of the transferred asset or part of them. In such cases, the assets transferred are not derecognized. Examples of these transactions are securities lending and sale and repurchase transactions.

3.1.2.2 Impairment of financial assets

3.1.2.2.1 Accounting policies used before July 1, 2018

3.1.2.2.1.1 Loans

It is evaluated if there is objective evidence that a financial asset or group of financial assets is impaired.

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

Objective evidence that a financial asset or group of financial assets is impaired includes observable information about the following loss events:

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as delinquency in interest or principal payments.
- For economic or legal reasons related to the financial difficulty of the borrower, a concession is granted that has not been considered otherwise.
- It is likely that the borrower will enter bankruptcy or other financial reorganization.
- The disappearance of an active market for the financial asset due to financial difficulties.
- Observable information indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets from the initial recognition of such assets, although the decrease cannot yet be identified with the individual financial assets.

Initially, it is evaluated whether the objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that there is no objective evidence of impairment of the individually-assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and are collectively evaluated for impairment.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

3.1.2.2.1.1.2 Individually-assessed loans

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

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

3.1.2.2.1.1.3 Collectively-assessed loans

For the purposes of a collective assessment of impairment, the loans are grouped according to similar characteristics of credit risk. These characteristics are relevant for the estimation of impairment losses for the groups of such assets, being indicative of the debtors' ability to pay the amounts owed according to the contractual terms of the assets that are evaluated.

Impairment losses in a group of loans that are collectively- assessed to determine whether there is impairment, are estimated according to the experience of historical loss for assets with credit risk characteristics similar to the group and in Management's experienced opinions on whether the current economy and credit conditions can change the real level of historical inherent losses suggested.

3.1.2.2.1.1.4 Reversal of impairment

If, in a subsequent period, the amount of the impairment loss decreases and the decrease could be objectively related to an event that occurred after the impairment was recognized, the previously recognized impairment loss is reversed by reducing the reserve account for uncollectible loans. The amount of any reversal is recognized in the condensed consolidated statement of profit or loss.

When a loan is uncollectable, it is written off against the reserve for loans losses. These loans are canceled after all necessary procedures have been contemplated and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the reserve.

3.1.2.2.1.1.5 Restructured loans

Restructured loans are those in which a restructured has been made due to a deterioration in the debtor's financial condition, and where granting any changes in the credit parameters is considered. These loans, once they are restructured, remain in the assigned category, regardless of whether the debtor shows any improvement in their condition, after their restructuring.

3.1.2.2.1.1.6 Assets classified as available for sale

At the date of the condensed consolidated statement of financial position, it is assessed whether there is objective evidence that a financial asset or a group of financial assets are impaired. In the case of equity and debt instruments classified as available for sale, a significant and/or prolonged decrease in the fair value of the financial asset below its cost is taken into consideration to determine whether the assets are impaired.

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

3.1.2.1.3 Accounting policies used as of July 1, 2018

The measurement of the allowance for expected credit losses on 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. It also requires several significant judgments when applying the accounting requirements to measure expected losses, such as:

- Determining the criteria for a significant increase in credit risk.
- Selecting appropriate models and assumptions for measuring the expected loss.
- Incorporating 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 policy 4.

The Bank recognizes a provision for losses due to ECLs in the following financial instruments not measured at FVTPL:

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

Impairment losses on equity investments are not recognized.

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

- 12-month ECL – ECL over a life time resulting from events of default in the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Life time ECL, i.e. ECL over a life time resulting from all possible events of default during the life of the financial instrument (referred to as Stage 2 and Stage 3).

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

These are measurements such as the present value of the difference between the cash flows owed to the Group under the contract and the cash flows that the Bank expects to receive that arise from the weighting of multiple future economic scenarios, discounted to the EIR of the asset.

- For subscribed loan commitments subscribed, the ECL is the difference between the present value of the difference between the contractual cash flows due to the Group if the commitment holder takes the loan and the cash flows the Group expects to receive if the loan is taken; and
- For financial guarantee contracts, the ECL is the difference between the payments expected to reimburse the policyholder of the secured debt instrument less any amounts the Group 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.

3.1.2.1.3.1 Impaired financial assets

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

- Significant financial difficulty of the borrower or issuer;
- A breach of contract, such as a default or expiration event;
- The borrower's lender, for economic or contractual reasons related to the financial difficulty of the borrower, has granted the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security due to financial difficulties; or
- The purchase of a financial asset with a large discount that reflects the credit losses incurred.

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 FVTOCI are credit-impaired at each reporting date. To assess whether sovereign and corporate debt instruments are 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 a deterioration in the financial condition of the borrower, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has been reduced significantly and there are no other impairment indicators. For financial assets where concessions are contemplated, but have not been granted, the asset is considered to be credit-impaired when there is observable evidence of credit deterioration, including satisfying the definition of default. The definition of default (see below) includes the unlikelihood of payment indicators and interruption of the backup if the amounts are 90 or more days past due.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

3.1.2.1.3.2 Definition of default

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

- The debtor is more than 90 days past due in any of his obligations to the bank, either in the principal or interest of the loan; or when the single payment of the principal balance on maturity is pending payment for more than 30 days;
- Deterioration in the financial situation of the client, or the existence of other factors used to estimate the possibility that the principal balance and the interest of the loans of clients will not be fully recovered.
- However, there is a rebuttable presumption that the credit risk of these past due loans has increased significantly since the initial recognition if the Bank has reasonable and sustainable information available without cost or disproportionate effort, which demonstrate 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. Assessment inputs regarding whether a financial instrument is in default and their importance may vary over time to reflect changes in circumstances.

3.1.2.1.3.3 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 comprehensive, when measuring a significant increase in credit risk:

- Assets with arrears of more than 30 days.
- Assets restructured by risks, where the client is experiencing financial difficulties and until it is shown that their credit risk has improved.
- Clients with a significant increase in risk measured by the behavioral score of the consumer portfolio and the credit rating for the corporate portfolio, as detailed below, due to:
 - o A real or expected significant change in the borrower's operating results;
 - o An expected or real significant adverse change in the borrower's regulatory, economic or technological environment;
 - o Significant changes in the value of the collateral that supports the obligation;
 - o Significant changes, such as reductions in the financial support of a controlling entity or other subsidiary or a real or expected significant change in the quality of the credit improvement, among other factors incorporated in the Bank's expected credit loss model.
 - o Existing or expected adverse changes in the business, financial or economic conditions;
- Significant changes in the indicators of the external credit risk market for a specific financial instrument or similar financial instruments with the same expected life;
- A real or expected significant change in the external credit rating of the financial instrument;

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

- For the consumer portfolio, risk is measured through a behavioral scoring model in which historical credit risk behavior variables are aligned for each product based on a weight for each variable until a credit risk score is obtained.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

- 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, cash and cash flows, capitalization and indebtedness, economic environment and positioning, regulatory framework and/or industry, sensitivity scenarios and quality of management and the borrower's shareholders.

At each reporting date, through the assessment of the Bank's credit rating, it evaluates whether there is a significant increase in credit risk based on the change in default risk that occurs during the expected life of the credit instrument. In order to assess whether significant credit impairment has occurred, the Bank considers reasonable and sustainable information 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.

For credit commitments, the Bank considers changes in the risk of default that occurs in the "possible" loan to which the credit commitment relates, and for the financial guarantee contracts, changes in the risk that the specific debtor will default.

3.1.2.1.3.4 Modified or restructured loans

A modified or restructured loan is a loan whose borrower is experiencing financial difficulties and the restructuring constitutes a concession to the borrower. A concession may include the modification of terms such as an extension of the expiration 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 a reduction in accounts (1). In accordance with the Bank's policies, the modification results in a reduction in accounts 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 that after modification are no longer SPPI, change of currency or change of counterparty, extension of the change in interest rate, maturity, payment agreements. If they do not clearly identify a major modification, then;
- A quantitative valuation is made 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, both amounts discounted at the original effective interest.

When the contractual terms of a financial asset are modified and this modification is not a result of an asset derecognition, the Bank determines whether the credit risk of the financial asset has increased significantly since the initial recognition, by comparing:

- The estimated probability of default during the remaining life time, based on data in the initial recognition and the original contractual terms; with
- The probability of default with the remaining life at the reporting date, based on the modified terms.

In the modification or restructuring of the contractual cash flows of the loan, the Bank must:

- 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 present value of the restructured or modified contractual cash flows, discounted at the original effective interest rate of the loan.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

- Evaluate whether there has been a significant increase in the credit risk of the financial instrument, comparing the risk of default that occurs on the reporting date (based on the modified contractual terms) and the risk of default that occurs in the initial recognition (based on the original contractual terms, unmodified). The modified loan is not automatically considered to have a lower credit risk. The evaluation must consider the credit risk through the expected life of the asset based on historical information and prospective information, including information about the circumstances that led to the modification. The evidence that the criteria for recognition of expected credit losses for the life of the instrument are no longer met may include an updated history and timely payments in subsequent years. A minimum observation period will be necessary before a financial asset can qualify to return to an expected credit loss measurement of 12 months.
- Make the appropriate quantitative and qualitative disclosures required for loans that have been restructured or modified 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.

3.1.2.1.3.5 Write Offs

Loans and debt securities are written off when the Bank does not have reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or income sources that could generate sufficient cash flows to reimburse the amounts subject to the penalty.

3.1.2.1.3.6 Presentation of the provision for ECLs in the condensed consolidated statement of financial position

The provision for ECLs is presented in the condensed 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 at FVTOCI: no provision for loss is recognized in the condensed consolidated statement of financial position since the carrying value is at fair value. However, the provision for loss is included as part of the amount of the revaluation in the reserve for revaluation of investments;
- For loan commitments and financial guarantee contracts: as a provision; and
- When a financial instrument includes both a subscription component and a non-subscription component, the Group cannot identify the ECL in the loan commitment component separately from the underwriting component: the Group presents a combined provision for loss for both components. The combined amount is presented as a deduction from the gross book value of the underwriting component.

3.1.2.1.3.7 Loans at amortized cost

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

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

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

The expected credit losses model reflects the general pattern of deterioration 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 deterioration since the initial recognition. There are two evaluation criteria:

- 12 months of expected credit losses (stage 1), which applies to all loans (initial recognition), as long as there is no significant deterioration in credit quality, and
- Expected credit losses over a life time (stages 2 and 3), which is applied when there has been a significant increase in credit risk individually or collectively. In 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 subsequently becomes credit impaired (where a credit event has occurred), interest income is calculated on amortized cost (the gross carrying value after deducting the impairment reserve). In later 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 credit rating of the borrower), 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 component based on a formula. The specific active component, or of the specific allocation, refers to the provision for losses in credits considered impaired and evaluated individually 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 tax base) 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 the statistical analysis and Management's qualitative judgment. This analysis must 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 if there is objective evidence of impairment:

- Individually Assessed Loans – Expected 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 whether they are individually significant or not. If it is determined that there is no objective evidence of impairment for an individual loan, it is included in a group of loans with similar characteristics and is evaluated collectively to determine if there is impairment.

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

- Collectively-Assessed Loans - For the purposes of a collective assessment of impairment, loans are grouped according to similar characteristics of credit risk. These characteristics are relevant for the estimation of future cash flows for the groups of such assets, being indicative of the debtors' ability to pay the amounts owed according to the contractual terms of the assets under assessment.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

Future cash flows in a group of loans that are assessed collectively to determine if there is impairment are estimated according to the contractual cash flows of the assets in the group, the experience of historical loss for assets with credit risk characteristics similar to those of the group and on Management's experienced opinions on whether the current economy and credit conditions can change the real level of the inherent historical losses suggested.

3.2 Comparative information

The information as at June 30, 2018 contained in these condensed consolidated interim financial statements is presented only for purposes of comparison with information related to the nine-month period ended March 31, 2019.

3.3 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. The 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 shareholders is at the discretion of the Bank ("The Issuer") are classified as an equity instrument.

3.4 Income tax

The income tax of interim periods has been estimated using the tax rate that will be applicable to the expected annual taxable income.

4. Financial risk management

4.1 Objectives of financial risk management

Financial risk factors

The Group's activities are exposed to a variety of financial risks: credit, liquidity, market and operational risk.

The condensed consolidated interim financial statements do not include all the financial risk management information and disclosures that are required in the annual financial statement. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements as at June 30, 2018.

There have been no changes in the risk management department or in any risk management policy as at June 30, 2018.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

4.2 Credit Risk

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

	March 2019	June 2018
<u>Bank deposits</u>		
Grade 1: Normal	439,793,791	408,147,304
<u>Loans</u>		
Grade 1: Normal	5,785,084,006	4,614,939,395
Grade 2: Special mention	418,751,751	283,040,220
Grade 3: Subnormal	147,266,234	16,652,093
Grade 4: Doubtful	37,716,464	25,885,302
Grade 5: Uncollectible	110,478,112	67,642,972
Gross amount	6,499,296,567	5,008,159,982
Allowance for individual and collective impairment	(100,180,666)	(47,209,225)
Unearned discounted interest	(16,010,724)	(10,985,122)
Carrying amount, net	6,383,105,177	4,949,965,635
<u>Restructured loans</u>		
Gross amount	156,449,623	86,650,666
Impairment allowance	(11,822,851)	(6,403,237)
Net amount	144,626,772	80,247,429
<u>Delinquent but not impaired</u>		
31 to 60 days	72,815,883	38,948,191
61 a 90 days	10,273	-
Sub-total	72,826,156	38,948,191
<u>Allowance for loan impairment</u>		
Individual	(43,229,323)	(21,084,711)
Collective	(56,951,343)	(26,124,514)
Total impairment allowance	(100,180,666)	(47,209,225)
<u>Off-balance sheet operations</u>		
Grade 1: Normal		
Letters of credit	140,920,993	135,416,413
Endorsements and guarantees	503,377,396	401,781,110
Promissory notes	284,430,590	303,877,041
Unused credit lines granted	177,715,825	167,219,051
	1,106,444,804	1,008,293,615
<u>Securities purchased under resale agreements - at amortized cost</u>		
Grade 1: Normal	5,025,049	3,027,052
<u>Investment securities available-for-sale</u>		
Grade 1: Normal	-	466,716,054
<u>Securities held to maturity</u>		
Grade 1: Normal	-	318,365,181
<u>Investments at fair value through other comprehensive income</u>		
Grade 1: Normal	456,701,758	-
<u>Investments at fair value through profit or loss</u>		
Grade 1: Normal	29,973,252	-
<u>Investments at amortized cost</u>		
Grade 1: Normal	337,416,421	-

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

	March 2019		
	<u>Global Bank Corporation</u>	<u>Subsidiaries</u>	<u>Total</u>
Current	4,770,445,109	1,428,235,381	6,198,680,490
From 31 to 90 days	80,508,346	59,858,555	140,366,901
More than 90 days (principal or interest)	93,821,692	37,286,288	131,107,980
More than 30 days overdue (maturity principal)	22,270,611	6,870,585	29,141,196
Total	<u>4,967,045,758</u>	<u>1,532,250,809</u>	<u>6,499,296,567</u>

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

	March 2019	June 2018
Current	6,198,680,490	4,856,179,665
Delinquent	140,366,901	62,963,584
Overdue	160,249,176	89,016,733
Total	<u>6,499,296,567</u>	<u>5,008,159,982</u>

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

4.2.3 Movement of financial instruments and their provisions in the stages of IFRS 9

Due to the analysis of the Bank's exposure to credit risk by financial asset class, the internal classification and the "stage" without taking into account the effects of any collateral or other credit enhancements, are provided in the following tables. Unless specifically stated, for financial assets, the amounts in the table represent the gross carrying value. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

4.2.3.1 Loan portfolio

The allowances for expected credit losses related to loans at amortized cost are as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance at the beginning of the period (IRFS 9)	4,684,420,965	234,722,285	89,016,732	5,008,159,982
Transferred to 12-months (Stage 1)	365,975,138	(351,665,938)	(14,309,200)	-
Transferred to lifetime not credit-impaired (Stage 2)	(839,351,933)	912,274,397	(72,922,464)	-
Transferred to lifetime credit-impaired (Stage 3)	(23,061,106)	(131,156,930)	154,218,036	-
Net effect of changes in reserve for expected credit losses	(293,277,511)	9,992,346	(426,940)	(283,712,105)
New financial assets originated or purchased	1,394,483,779	-	-	1,394,483,779
New financial assets purchased	1,164,236,165	154,822,775	53,399,391	1,372,458,331
Cancelled loans	(915,739,643)	(46,851,039)	(14,761,890)	(977,352,572)
Write-offs	-	-	(14,740,848)	(14,740,848)
Balance at the end of the period	<u>5,537,685,854</u>	<u>782,137,896</u>	<u>179,472,817</u>	<u>6,499,296,567</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019 (In balboas)

The allowances for expected credit losses related to loans at amortized cost are as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance at the beginning of the period (IAS 39)				47,209,225
Reserve transferred to retained earnings				38,399,837
Balance at the beginning of the period (IFRS 9)	30,929,776	15,050,605	39,628,679	85,609,060
Changes due to financial instruments recognized as of June 30, 2018	-	-	-	
Transferred to 12-months (Stage 1)	8,641,186	(7,102,206)	(1,538,980)	-
Transferred to lifetime not credit-impaired (Stage 2)	(20,146,917)	36,411,426	(16,264,509)	-
Transferred to lifetime credit-impaired (Stage 3)	(3,174,808)	(10,125,266)	13,300,074	-
Net effect of changes in reserve for expected credit losses	(4,274,615)	(124,149)	21,583,140	17,184,376
New financial assets originated	6,384,442	-	-	6,384,442
New loans or new financial assets purchased	3,158,626	4,208,430	10,892,545	18,259,601
Cancelled loans	(5,176,500)	(3,257,623)	(5,961,208)	(14,395,331)
Write-offs	-	-	(14,740,848)	(14,740,848)
Recoveries of amounts previously written-off	-	-	1,879,366	1,879,366
Balance at the end of the period	<u>16,341,190</u>	<u>35,061,217</u>	<u>48,778,259</u>	<u>100,180,666</u>

4.2.3.2 Investment portfolio

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

March 2019	Without investment grade of an international agency			Total
	With investment grade	Standard monitoring	Without investment grade of an international agency	
Investments at fair value through other comprehensive income	92,087,210	101,626,470	262,988,078	456,701,758
Investments at fair value through profit or loss	19,784,922	-	10,188,330	29,973,252
Investments at amortized cost	290,843,065	46,573,356	-	337,416,421
Securities purchased under resale agreements	-	-	5,025,049	5,025,049
Total	<u>402,715,197</u>	<u>148,199,826</u>	<u>278,201,457</u>	<u>829,116,480</u>
Expected loss - Investments at amortized cost	71,463	152,278	-	223,741
Expected loss - Investments at fair value through other comprehensive income	196,784	848,998	1,511,415	2,557,197

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

The allowances for expected credit losses related to investment at fair value through other comprehensive income are not recognized in the condensed consolidated statement of financial position since they are measured at fair value. See note 3 disclosure for allowances for expected credit losses.

The allowances for expected credit losses related to investment at fair value through other comprehensive income are as follows:

Investment at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the period (IFRS 9)	2,767,053	-	-	2,767,053
Transfer from 12 months to total life without credit deterioration	(8,645)	8,645	-	-
Net effect of changes in reserve for expected credit losses	(79,942)	22,367	-	(57,575)
New debt instruments purchased	243,341	-	-	243,341
Cancelled investments	(395,622)	-	-	(395,622)
Balance at the end of the period	2,526,185	31,012	-	2,557,197

The allowances for expected credit losses related to investment at amortized cost are as follows:

Investments at amortized cost	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the period (IFRS 9)	353,990	-	-	353,990
Net effect of changes in reserve for expected credit losses	(57,285)	-	-	(57,285)
New debt instruments purchased	95,636	-	-	95,636
Cancelled investments	(168,600)	-	-	(168,600)
Balance at the end of the period	223,741	-	-	223,741

4.2.3.3 Collaterals to reduce credit risk and its financial impact

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

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

March 2019	Consumer				Corporate		Total loans
	Personal	Credit cards	Vehicles	Mortgages	Commercial	Overdrafts	
Loans balance	720,841,446	119,740,041	306,888,609	1,720,370,539	3,456,210,639	175,245,293	6,499,296,567
Collaterals	352,703,442	4,114,934	447,327,620	2,358,203,109	8,630,672,343	219,006,995	12,012,028,443
Exposure % subject to guarantee requirements	49%	3%	146%	137%	250%	125%	185%

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

Residential mortgage loans

The table below shows the loan portfolio ratio of the mortgage portfolio in relation to the value of the collaterals ("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.

	March 2019	June 2018
Residential mortgage loans:		
Less than 50%	107,762,583	69,155,781
51% - 70%	321,293,900	201,809,633
71% - 90%	835,791,916	561,044,137
More than 90%	<u>455,522,140</u>	<u>313,058,555</u>
Total	<u>1,720,370,539</u>	<u>1,145,068,106</u>

Time deposits placed in banks

As at March 31, 2019, the Bank held time deposits in banks for B/.267,113,865 (June 2018: B/.299,081,011). Time deposits in banks are kept in local and foreign financial institutions. These institutions have local and/or international ratings, mostly with an international investment grade of at least BBB- by Fitch Ratings or Standard and Poors, or Baa3 by Moody's.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

	March 2019		
	<u>Carrying value</u>	<u>Impairment allowance</u>	<u>Net amount</u>
Normal	5,785,084,006	22,442,118	5,762,641,888
Special mention	418,751,751	18,611,379	400,140,372
Subnormal	147,266,234	13,993,734	133,272,500
Doubtful	37,716,464	7,735,016	29,981,448
Uncollectible	110,478,112	37,398,419	73,079,693
	<u>6,499,296,567</u>	<u>100,180,666</u>	<u>6,399,115,901</u>
Less: unearned interest and commissions			(16,010,724)
Total			<u>6,383,105,177</u>

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

4.3 Liquidity risk or financing

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

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

Panamanian Banking Regulations require banks with a general license to keep at all times a minimum balance of liquid assets, as defined in Agreement 4-2008 of the Superintendency of Banks of Panama, of no less than 30% of their deposits. However, due to the severe liquidity policies for covering their operating liabilities, the liquidity of the Bank based on this standard as at March 31, 2019, was 48.88% (June 2018: 56.31%).

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.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

	March 2019	June 2018
	48.88%	56.31%
Average for the period	49.72%	49.12%
Maximum for the period	56.31%	61.47%
Minimum for the period	41.34%	42.00%

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

	March 2019		Less than			
	Carrying value	Undiscounted cash flows	1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits	4,822,668,845	4,848,468,816	3,090,158,523	1,113,420,117	627,675,846	17,214,330
Repurchase agreements	72,082,860	72,725,512	72,725,512	-	-	-
Obligations with financial institutions	872,359,168	935,813,849	451,240,301	403,129,027	46,462,002	34,982,519
Marketable securities	84,212,812	85,524,649	85,524,649	-	-	-
Corporate bonds	1,375,550,725	1,507,542,739	635,580,337	809,546,113	62,416,289	-
Subordinated bonds	17,347,604	78,999,432	1,175,036	2,350,073	2,350,073	73,124,250
Perpetual bonds	115,802,719	173,476,059	7,838,202	15,676,404	15,676,404	134,285,049
	<u>7,360,024,733</u>	<u>7,702,551,056</u>	<u>4,344,242,560</u>	<u>2,344,121,734</u>	<u>754,580,614</u>	<u>259,606,148</u>

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

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

4.4 Market risk

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

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

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

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

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

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

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

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

March 2019	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	264,486,761	1,027,103	1,600,000	-	225,708,223	492,822,087
Securities purchased under resale agreements	5,025,049	-	-	-	-	5,025,049
Investments at fair value through other comprehensive income	123,788,573	1,451,100	230,522,405	55,929,100	45,010,580	456,701,758
Investments at fair value through profit or loss	18,862,008	-	-	922,914	10,188,330	29,973,252
Investments at amortized cost	-	-	78,485,702	258,930,719	-	337,416,421
Loans	4,748,693,820	182,600,403	344,467,246	1,223,535,098	-	6,499,296,567
Total financial assets	5,160,856,211	185,078,606	655,075,353	1,539,317,831	280,907,133	7,821,235,134
Financial liabilities:						
Client deposits	2,106,709,734	708,579,196	1,524,573,638	17,176,377	465,629,900	4,822,668,845
Securities sold under repurchase agreements	72,082,860	-	-	-	-	72,082,860
Obligations with financial institutions	691,782,690	180,576,478	-	-	-	872,359,168
Marketable securities	69,482,996	14,729,816	-	-	-	84,212,812
Corporate bonds	1,252,401,888	-	123,148,837	-	-	1,375,550,725
Subordinated bonds	-	-	-	17,347,604	-	17,347,604
Perpetual bonds	-	-	-	115,802,719	-	115,802,719
Total financial liabilities	4,192,460,168	903,885,490	1,647,722,475	150,326,700	465,629,900	7,360,024,733
Commitments and contingencies	-	-	-	-	1,106,444,804	1,106,444,804
Total interest rate sensitivity	968,396,043	(718,806,884)	(992,647,122)	1,388,991,131	(184,722,767)	461,210,401
June 2018						
	Less than 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Without interest rate	Total
Financial assets:						
Cash and deposits	297,331,011	1,000,000	750,000	-	141,866,743	440,947,754
Securities purchased under resale agreements	1,027,033	2,000,019	-	-	-	3,027,052
Securities available-for-sale	108,473,497	13,005,872	161,629,401	126,782,503	56,824,781	466,716,054
Securities held to maturity	-	-	40,886,190	277,478,991	-	318,365,181
Loans	3,975,511,841	16,372,777	112,540,841	903,734,523	-	5,008,159,982
Total financial assets	4,382,343,382	32,378,668	315,806,432	1,307,996,017	198,691,524	6,237,216,023
Financial liabilities:						
Client deposits	1,400,893,675	535,287,560	1,173,758,100	23,214,907	410,190,543	3,543,344,785
Securities sold under repurchase agreements	67,096,800	-	-	-	-	67,096,800
Obligations with financial institutions	697,979,013	-	-	-	-	697,979,013
Marketable securities	14,598,000	6,060,000	-	-	-	20,658,000
Corporate bonds	1,283,771,949	-	-	-	-	1,283,771,949
Subordinated bonds	-	-	-	17,437,777	-	17,437,777
Perpetual bonds	-	-	-	115,713,827	-	115,713,827
Total financial liabilities	3,464,339,437	541,347,560	1,173,758,100	156,366,511	410,190,543	5,746,002,151
Commitments and contingencies	-	-	-	-	1,008,293,615	1,008,293,615
Total interest rate sensitivity	918,003,945	(508,968,892)	(857,951,668)	1,151,629,506	(211,499,019)	491,213,872

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

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

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

March 2019	Increase of 100bps	Decrease of 100bps
Investment securities	(33,655,194)	36,010,069
Loans	(17,351,986)	18,547,225
Time deposits	43,056,911	(44,536,932)
Obligations with financial institutions	9,966,209	(10,249,669)
Marketable securities	324,482	(326,385)
Corporate bonds	3,370,329	(3,478,645)
Subordinated and perpetual bonds	4,645,604	(5,366,677)
Net impact	<u>10,356,355</u>	<u>(9,401,015)</u>
June 2018	Increase of 100bps	Decrease of 100bps
Investment securities	(34,193,111)	36,701,381
Loans	(13,518,574)	14,495,053
Time deposits	33,695,764	(34,861,502)
Obligations with financial institutions	6,970,845	(7,182,464)
Marketable securities	72,486	(71,007)
Corporate bonds	88,704	(89,584)
Subordinated and perpetual bonds	5,346,157	(6,112,944)
Net impact	<u>(1,537,729)</u>	<u>2,878,933</u>

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.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

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

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

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

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

4.6 Insurance risk

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

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

4.7 Capital management

The Bank manages its capital to ensure:

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

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

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

As at March 31, 2019 and June 30, 2018, the Bank analyzes its regulatory capital applying the standards of the Superintendency of Banks of Panama based on the new agreements, Agreement 1-2015 of February 3, 2015 and Agreement 3-2016 of March 22, 2016, which modified Agreement 5-2008 of October 1, 2008 that established the standards to determine the weighted assets by credit risk and counterparty risk.

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

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

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

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

- *Secondary capital* - Includes hybrid capital and debt instruments, subordinated debt, general allowances for losses, undeclared reserves and asset revaluation reserves. The general reserves for losses are those reserve that are created voluntarily by the Bank's Management, with the purpose of covering losses that have not yet been identified; specific undeclared reserves are those appropriated from profit after tax and are available to cover future unanticipated losses and do not have any liens or encumbrances. Revaluation reserves of assets are comprised as the result of any revaluation performed on the Bank's assets. As at March 31, 2019 and June 30, 2018, the Bank does not hold any reserves from revaluation of assets.
- *Dynamic reserve* – According to the definition in Agreement 4-2013.

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

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

With the adoption of the new agreements, Agreement 1-2015 of February 3, 2015 and Agreement 3-2016 of March 22, 2016, the Bank maintains a regulatory capital position composed, as at March 31, 2019 and June 30, 2018, as follows:

	March 2019	June 2018
Primary capital (Tier 1)		
Paid-in share capital	267,927,793	98,202,657
Excess paid-in capital	4,667,071	2,325,817
Declared reserves	40,382,877	39,415,421
Retained earnings	370,954,285	386,826,326
Other items of comprehensive income	8,978,164	1,265,714
Dynamic reserve	78,651,078	67,282,999
Sub total	<u>771,561,268</u>	<u>595,318,934</u>
Less: Regulatory adjustments to ordinary primary capital calculations		
Trade funds	(98,074,923)	(16,762,687)
Other intangible assets	(24,283,007)	(8,971,762)
Total primary capital funds	<u>649,203,338</u>	<u>569,584,485</u>
Perpetual bonds	115,802,719	115,713,827
Total additional primary capital funds	<u>115,802,719</u>	<u>115,713,827</u>
Subordinated bonds	17,347,604	17,437,777
Total secondary capital funds	<u>17,347,604</u>	<u>17,437,777</u>
Total capital funds	<u>782,353,661</u>	<u>702,736,089</u>
Risk-weighted assets		
Total risk-weighted assets	<u>5,868,837,690</u>	<u>4,799,768,752</u>
Capital ratios		
Total regulatory capital expressed as a percentage of risk-weighted assets	<u>13.33%</u>	<u>14.64%</u>
Total Tier 1 expressed as a percentage of risk-weighted assets	<u>13.04%</u>	<u>14.28%</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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 condensed consolidated financial statements

- (a) Valuation of the business model: The classification and management of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This valuation includes the relevant information. The Bank monitors the financial assets measured at amortized cost or fair value through other comprehensive results that are derecognized before they are due, to understand the reason for its derecognition into account and if the reasons are consistent with the objective of the account business for which the asset was maintained.
- (b) Significant increase in credit risk: For the assets in stage 1, expected losses are measured as a provision equal to the credit losses expected for 12-months, or the expected losses during the term for the assets of stage 2 or the assets of stage 3. An asset moves to stage 2 when its credit risk has increased significantly since the initial recognition. When assessing whether the credit risk of an asset has increased significantly, the Bank takes into account prospective reasonable and supported information, both qualitative and quantitative.
- (c) Establishment of asset groups with similar characteristics of credit risk: When the expected credit losses are measured on a collective basis, the financial instruments are grouped based on the shared risk characteristics.

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

- (d) Models and assumptions used: The Bank uses several models and assumptions in the measurement of the fair value of financial assets, as well as in the estimation of 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 are related to the key indicators of credit risk.
- (e) Reserve for expected credit losses - When determining the reserve for expected credit losses, 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 the characteristics of the loans and the predetermined patterns in the past for similar financial instruments. The changes in the risk of default occurring in the following 12 months can be a reasonable approximation of the changes in the risk measured according to the life of the instrument, which the Bank uses to determine whether the credit risk has increased significantly since initial recognition, unless the circumstances indicate that an evaluation of the life of the instrument is required.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

- (f) Impairment losses on loans at amortized cost - The Bank reviews its individually significant loans at each date in the condensed consolidated statement of financial position to assess whether an impairment loss should be recorded in the condensed consolidated statement of profit or loss. In particular, Management's judgment is required in estimating the amount and future cash flows to determine the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes in the provision. Loans that have been individually assessed (and that are not impaired) are evaluated together with other non-significant loans in groups of assets with similar risk characteristics. This is to determine if 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 evaluation takes into account the data of the loan portfolio (such as the delinquency levels, the use of credit, loan-guarantee relationships, etc.), and judgments about the effect of the concentration of risks and economic data (including levels of unemployment, consumer price indexes, country risk and the performance of different individual groups).
- (g) Impairment of investments measured at fair value with changes in other comprehensive income and investments measured at amortized cost - The Bank reviews its debt securities classified as investments at fair value with changes in other comprehensive income and investments at amortized cost at the close of each reporting date to assess if 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 in which the fair value of an investment is less than its cost
- (h) Fair value and valuation processes of financial instruments - The Bank measures fair value using hierarchy levels that reflect the meaning of data inputs used in the measures. In order to determine fair value, the Bank has established a documented process and policies that assigns responsibilities and the segregation of duties among the different areas responsible involved in this process, which has been approved by the Assets and Liabilities Committee (ALCO), the Risk Committee, and the Board of Directors.

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

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

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

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

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

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

Fair value of financial assets and financial liabilities measured at fair value on a recurring basis as at March 31, 2019 and June 30, 2018

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 data input(s)	Relationship between unobservable data inputs and fair value
	March 2019	June 2018				
Corporate shares - domestic	6,358,588	5,868,918	Level 2	Observable market prices in non-active markets.	N/A	N/A
Corporate shares - domestic	59,488	171,051	Level 3	Prices in non-liquid markets.	Calibration prices and dates.	If unobservable data inputs increase, the fair value of the instrument will decrease.
Corporate shares - foreign	460,996	735,585	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt securities - domestic	9,988,800	9,879,250	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - domestic	66,631,025	132,764,850	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt securities - domestic	156,571,810	83,147,014	Level 3	Bond prices in non-liquid markets.	Calibration prices and dates.	If unobservable data inputs increase, the fair value of the instrument will decrease.
Private debt securities - foreign	137,941,209	136,817,083	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - foreign	18,862,008	19,900,902	Level 2	Risk-neutral valuation. Discount curves are created based on LIBOR and the probabilities of default for underlying risks are calibrated to CDs quotes.	N/A	N/A
Government debt securities - domestic	5,418,911	5,485,020	Level 1	Observable market prices in active markets.	N/A	N/A
Government debt securities - domestic	28,617,407	14,377,191	Level 2	Observable market prices in non-active markets.	N/A	N/A
Government debt securities - foreign	6,655,080	6,630,170	Level 1	Observable market prices in active markets.	N/A	N/A
Corporate domestic shares not listed in Stock Exchange	5,023,230	5,023,230	Level 3	Value per share, adjusted for the fair value of the Issuer's property.	Growth of Issuer's assets, liabilities, equity and profits.	If growth increases, the price increases and viceversa.
Investment Funds	-	1,960,000	Level 2	Observable market prices in non-active markets.	N/A	N/A
Interest rate swaps - Fair value	(20,280,668)	(45,303,347)	Level 2	Present value. The interest rate swap valuation is achieved by adding the present value of all expected swap cash flows, and later applying a credit adjustment.	N/A	N/A
Interest and exchange rate swaps - Fair value	-	(8,465,768)	Level 2	Present value. The interest rate swap valuation is achieved by adding the present value of all expected swap cash flows, and later applying a credit adjustment.	N/A	N/A
Corporate bonds	1,207,416,313	1,273,771,949	Level 2	Fair value is determined based on the contracted hedge instrument.	N/A	N/A
Time deposits - domestic	203,336,773	198,410,986	Level 2	Fair value is determined based on the contracted hedge instrument.	N/A	N/A
Total	<u>1,833,060,970</u>	<u>1,841,174,084</u>				

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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.

March 2019

Investments at fair value through other comprehensive income

Effect on Equity

	<u>Favorable</u>	<u>(Unfavorable)</u>
Fixed income instruments	8,095,573	(7,558,945)

June 2018

Available for sale

Effect on Equity

	<u>Favorable</u>	<u>(Unfavorable)</u>
Fixed income instruments	4,969,720	(4,638,591)

Fair value of financial assets and financial liabilities of the Bank not measured at fair value on a recurring basis (but that require fair value disclosures) as at March 31, 2019 and June 30, 2018.

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

	March 2019		June 2018	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Assets				
Cash and bank deposits	225,708,222	225,708,222	141,866,743	141,866,743
Time deposits	267,113,865	267,113,865	299,081,011	299,081,011
Securities purchased under resale agreements - at amortized cost	5,025,049	5,025,049	3,027,052	3,027,052
Investments at amortized cost	337,416,421	342,031,064	318,365,181	312,824,351
Loans	6,383,105,177	6,420,526,722	4,949,965,635	4,968,908,318
Total financial assets	<u>7,218,368,734</u>	<u>7,260,404,922</u>	<u>5,712,305,622</u>	<u>5,725,707,475</u>
Liabilities				
Demand deposits	465,629,900	465,629,900	410,190,543	410,190,543
Savings deposits	949,720,208	949,720,208	643,372,781	643,372,781
Time deposits	3,407,318,737	3,461,131,713	2,489,781,461	2,534,564,092
Securities sold under repurchase agreements	72,082,860	72,082,860	67,096,800	67,096,800
Obligations with financial institutions	872,359,168	883,289,486	697,979,013	709,293,832
Marketable securities	84,212,812	85,461,285	20,658,000	20,726,542
Corporate bonds	167,942,076	169,821,000	10,000,000	10,000,000
Subordinated bonds	17,347,604	17,323,450	17,437,777	17,523,000
Perpetual bonds	115,802,719	115,481,932	115,713,827	115,832,160
Total financial liabilities	<u>6,152,416,084</u>	<u>6,219,941,834</u>	<u>4,472,230,202</u>	<u>4,528,599,750</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

	Fair value hierarchy			
	March 2019			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets				
Cash and bank deposits	225,708,222	-	225,708,222	-
Time deposits	267,113,865	-	267,113,865	-
Securities purchased under resale agreements - at amortized cost	5,025,049	-	5,025,049	-
Investments at amortized cost	342,031,064	342,031,064	-	-
Loans	6,420,526,722	-	-	6,420,526,722
Total financial assets	7,260,404,922	342,031,064	497,847,136	6,420,526,722
Liabilities				
Demand deposits	465,629,900	-	465,629,900	-
Savings deposits	949,720,208	-	949,720,208	-
Time deposits	3,461,131,713	-	3,461,131,713	-
Repurchase agreements	72,082,860	-	72,082,860	-
Obligations with financial institutions	883,289,486	-	883,289,486	-
Marketable securities	85,461,285	-	85,461,285	-
Corporate bonds	169,821,000	-	89,821,000	80,000,000
Subordinated bonds	17,323,450	-	9,088,450	8,235,000
Perpetual bonds	115,481,932	-	115,481,932	-
Total financial liabilities	6,219,941,834	-	6,131,706,834	88,235,000

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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 condensed consolidated financial statements.

The movement of investments at fair value through other comprehensive income (Investments available for sale at June 30, 2018) and investments at fair value through profit or loss in Level 3 is as follows:

	March 2019	June 2018
Balance at beginning of the period	132,297,085	121,756,663
Additions	46,099,475	42,875,897
Additions from acquisition of subsidiary	119,048	-
Changes in categories (IFRS 9)	(5,188,330)	-
Reclassifications from Level 2 to Level 3	60,532,105	5,675,479
Reclassifications from Level 3 to Level 2	(94,422)	(33,065,930)
Net changes in securities	1,516,317	(1,835,976)
Redemptions	(34,728,623)	(3,109,048)
Balance at the end of the period	<u>200,552,655</u>	<u>132,297,085</u>

As at March 31, 2019, Level 3 investments at fair value, mainly acquired during 2018, for B/.43,921,358 (securities available for sale as at June 30, 2018: B/.43,955,790) have been recorded at their acquisition cost.

As at March 31, 2019, Level 3 investments at fair value through other comprehensive income did not affect the Bank's profits, neither Level 3 securities available for sale as at June 30, 2018.

The total unrealized gain or loss for Level 3 investments at fair value through other comprehensive income as at March 31, 2019, is B/.4,260,360 (investments available for sale as at June 30, 2018: B/.1,102,511), which is located in item line "net changes in securities available for sale" in the condensed consolidated statement of financial position.

As at March 31, 2019, 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.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

6. Balances and transactions with related parties

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

	March 2019	June 2018
<i>Transactions with related parties</i>		
Condensed consolidated statement of financial position		
Assets		
Investments at fair value through other comprehensive income	18,068,868	20,579,229
Securities purchased under resale agreements	-	3,000,027
Loans	54,686,845	76,613,318
Accrued interest receivable	201,754	276,440
Other assets	34,246,639	23,923,741
Liabilities		
Client deposits:		
Demands	13,505,920	19,885,963
Savings	10,407,134	10,460,819
Time	135,526,147	75,048,644
Accrued interest payable	247,312	169,717
Commitments and contingencies	41,092,000	41,092,000
Condensed consolidated statement of profit or loss		
	March 2019	March 2018
Income and expenses		
Interest and dividend income	2,655,141	2,529,897
Interest expense	2,224,000	2,284,013

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

	March 2019	June 2018
<i>Transactions with Directors and key management personnel</i>		
Condensed consolidated statement of financial position		
Assets		
Loans	13,093,924	13,155,329
Accrued interest receivable	46,703	43,027
Liabilities		
Client deposits:		
Demand	3,281,766	3,657,418
Savings	8,962,654	9,624,701
Time	38,827,875	34,483,117
Accrued interest payable	717,187	103,538
Commitments and contingencies	1,713,500	1,521,500
Condensed consolidated statement of profit and loss		
Income and expenses		
Interest income	457,134	467,591
Interest expenses	1,096,659	1,011,428
Benefits of key Management personnel		
Salaries	2,828,233	2,537,978
Profit sharing	1,242,068	1,620,250
Excess paid-in-capital	2,274,864	-
Share option plan for employees	66,390	(416,047)
Allowances for Directors	342,000	265,500
	6,753,555	4,007,681

As at March 31, 2019, collaterals guaranteeing loans to related parties amounted to B/.134,419,540 (June 2018: B/.153,804,485), which correspond to property, assets and securities.

As at March 31, 2019, no loans with related parties show evidence of impairment. As at March 31, 2019, loans with related parties with maturities between August 2019 and September 2048 and annual interest rates ranging between 0.75% and 9% (2017: with maturities between July 2017 and June 2047 and annual interest rates ranging between 0.75% and 9%).

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

7. Cash and cash equivalents

	March 2019	June 2018
Cash and cash equivalents	53,028,296	32,800,450
Demand deposits	172,679,926	109,066,293
Time deposits	267,113,865	299,081,011
Cash and bank deposits	<u>492,822,087</u>	<u>440,947,754</u>
Less:		
Restricted time deposits	(20,035,385)	(55,991,817)
Time deposits with original maturities greater than 90 days	<u>(4,437,573)</u>	<u>(2,000,000)</u>
Cash and cash equivalents for purposes of the condensed consolidated statement of cash flows	<u>468,349,129</u>	<u>382,955,937</u>

As at March 31, 2019, there were fixed time deposits with original maturities greater than 90 days for B/.4,437,573 (June 2018: B/.2,000,000). In addition, there are fixed time deposits restricted for B/.20,035,385 (June 2018: B/.55,991,817) that guarantee financial obligations.

8. Securities purchased under resale agreements

As at March 31, 2019, securities purchased under resale agreements for B/.5,025,049 (June 2018: B/.3,027,052) with maturities in May and September 2019, (June 2018: with maturities in August and September 2018 and February and April 2019), are guaranteed by corporate bonds and shares.

9. Investments in securities

Below is the classification of the investments in securities:

	March 2019	June 2018
Securities available for sale	-	466,716,054
Investments at fair value through other comprehensive income	456,701,758	-
Investments at fair value through profit or loss	29,973,252	-
Securities held to maturity		318,365,181
Investments at amortized cost	<u>337,416,421</u>	<u>-</u>
	<u>824,091,431</u>	<u>785,081,235</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

9.1 Investments at fair value through other comprehensive income (securities available for sale as at June 30, 2018)

	March 2019	June 2018
<u>Securities listed in the stock exchange</u>		
Corporate shares - domestic	1,648,687	6,039,970
Corporate shares - foreign	460,996	735,585
Private debt securities - domestic	233,191,635	225,791,113
Private debt securities - foreign	137,018,295	156,717,985
Government debt securities - domestic	34,036,318	19,862,211
Government debt securities - foreign	6,655,080	6,630,170
Investment funds - foreign	-	1,960,000
	<u>413,011,011</u>	<u>417,737,034</u>
<u>Securities not listed in the stock exchange</u>		
Corporate shares - domestic	42,900,897	48,089,227
Government debt securities - domestic	789,850	889,793
	<u>43,690,747</u>	<u>48,979,020</u>
	<u>456,701,758</u>	<u>466,716,054</u>

Investments at fair value through other comprehensive income accrued interest at a rate ranging from 3.00% to 9.75% (securities available for sale as at June 30, 2018: 3.00% to 9.75%)

As at March 31, 2019, there are Investments at fair value through other comprehensive income for B/.34,815,325 (securities available for sale as at June 30, 2018: B/.40,240,264), which guarantee obligations with financial institutions (See Note 15).

As at March 31, 2019, the Bank sold and redeemed investments for B/.207,118,311 (June 2018: B/.338,830,452) and, as a result, recorded a loss of B/.4,260,360 (June 2018: B/.2,331,852), which is included in the condensed consolidated statement of profit or loss.

As at March 31, 2019, the Bank has a share capital for B/.43,131,508 (June 2018: B/.43,065,997), which are carried at acquisition cost as this represents the best estimate of fair value.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

9.2 Investments at fair value through profit or loss

Based on the new classification category for financial assets of IFRS 9 at fair value through profit or loss, the information as at March 31, 2019 is presented below:

	March 2019
<u>Securities listed in the stock exchange</u>	
Corporate shares - domestic	4,985,000
Private debt securities - foreign	19,784,922
	<u>24,769,922</u>
<u>Securities not listed in the stock exchange</u>	
Corporate shares - domestic	5,188,330
	<u>5,188,330</u>
	<u>29,958,252</u>

9.3 Investments at amortized cost

	March 2019		June 2018	
	Investments		Securities	
	Carrying value	Fair value	Carrying value	Fair value
<u>Securities listed in the stock exchange:</u>				
Private debt securities - domestic	3,084,761	3,101,490	3,070,063	3,086,040
Private debt securities - foreign	213,319,489	215,308,992	192,978,267	189,914,358
Government debt securities - domestic	63,892,581	65,594,212	64,545,168	63,363,392
Government debt securities - foreign	57,119,590	58,026,370	57,771,683	56,460,561
	<u>337,416,421</u>	<u>342,031,064</u>	<u>318,365,181</u>	<u>312,824,351</u>

As at March 31, 2019, the annual interest rate earned by investments at amortized cost range between 3.125% and 8.875% (securities held to maturity as at June 30, 2018: 3.125% y 8.875%).

As at March 31, 2019, there are investments at amortized cost for B/.35,313,596 (securities held to maturity as at June 30, 2018: B/.35,412,982), which guarantee obligations with financial institutions. (See Note 15).

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

10. Loans

	March 2019			June 2018		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
<i>Domestic:</i>						
Consumer	1,087,540,606	(22,989,769)	1,064,550,837	847,027,010	(17,196,243)	829,830,767
Commercial	1,217,940,076	(19,152,363)	1,198,787,713	950,065,116	(12,541,139)	937,523,977
Agricultural	464,391,987	(8,540,981)	455,851,006	301,328,365	(5,249,600)	296,078,765
Pledge	131,737,375	(2,824)	131,734,551	114,284,738	-	114,284,738
Overdrafts	127,879,821	(2,855,557)	125,024,264	130,270,502	(215,155)	130,055,347
Mortgage	1,720,370,538	(12,053,246)	1,708,317,292	1,145,068,106	(1,396,557)	1,143,671,549
Industrial	221,035,242	(4,681,520)	216,353,722	254,680,053	(419,298)	254,260,755
Construction	934,369,477	(16,069,624)	918,299,853	752,925,913	(5,243,531)	747,682,382
Financial leasings	60,131,734	(1,802,152)	58,329,582	39,345,198	(612,178)	38,733,020
Factoring	220,998,875	(10,459,578)	210,539,297	232,653,733	(4,335,524)	228,318,209
Total domestic	<u>6,186,395,731</u>	<u>(98,607,614)</u>	<u>6,087,788,117</u>	<u>4,767,648,734</u>	<u>(47,209,225)</u>	<u>4,720,439,509</u>
<i>Foreign:</i>						
Consumer	153,005	(3,083)	149,922	-	-	-
Commercial	136,942,858	(861,194)	136,081,664	105,774,190	-	105,774,190
Agricultural	1,058,518	(4,454)	1,054,064	1,169,330	-	1,169,330
Industrial	41,604,991	(191,674)	41,413,317	41,098,410	-	41,098,410
Construction	62,280,971	(474,703)	61,806,268	47,411,364	-	47,411,364
Pledge	23,495,021	-	23,495,021	17,970,022	-	17,970,022
Overdrafts	47,365,472	(37,944)	47,327,528	27,087,932	-	27,087,932
Total foreign	<u>312,900,836</u>	<u>(1,573,052)</u>	<u>311,327,784</u>	<u>240,511,248</u>	<u>-</u>	<u>240,511,248</u>
	<u>6,499,296,567</u>	<u>(100,180,666)</u>	<u>6,399,115,901</u>	<u>5,008,159,982</u>	<u>(47,209,225)</u>	<u>4,960,950,757</u>
Less:						
Discounted unearned interest and commissions			<u>(16,010,724)</u>			<u>(10,985,122)</u>
Total			<u>6,383,105,177</u>			<u>4,949,965,635</u>

As at March 31, 2019, the loan portfolio accrued interest at a rate ranging from 0.50% to 24% (June 2018: 0.75% to 24%).

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

	March 2019	June 2018
Fixed rate	993,193,649	617,065,798
Adjustable rate	5,332,746,010	4,261,042,976
Floating rate (Libor or Prime)	173,356,908	130,051,208
	<u>6,499,296,567</u>	<u>5,008,159,982</u>

The movement of the impairment allowance is summarized as follows:

	March 2019	June 2018
Balance at beginning of the period	47,209,225	42,973,346
Reserve from acquisition of subsidiary	18,259,601	-
Reserve charged to expenses	9,173,485	11,860,939
Reserve transferred to retained earnings	38,399,837	-
Recoveries	1,879,366	1,931,666
Written-off loans	(14,740,848)	(9,556,726)
Balance at end of the period	<u>100,180,666</u>	<u>47,209,225</u>

Financial leasing

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

	March 2019	June 2018
Less than a 1 year	3,233,428	2,096,081
1 to 5 years	46,638,160	37,249,117
Total	<u>49,871,588</u>	<u>39,345,198</u>
Less: unearned interest	(9,338,613)	(4,284,278)
Total finance leases, net	<u>40,532,975</u>	<u>35,060,920</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

	March 2019	June 2018
Real state	8,198,532,188	6,119,794,389
Personal property	1,108,948,093	852,423,784
Deposits in own Bank	282,603,164	225,543,478
Securities	96,019,611	56,902,206
Others	2,325,925,387	40,669,941
Total	<u>12,012,028,443</u>	<u>7,295,333,798</u>

Restructured loans

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

As at March 31, 2019, restructured loans that would otherwise be overdue or impaired amount to B/.156,449,623 (June 2018: B/.86,650,666).

	March 2019	June 2018
<i>Consumer:</i>		
Personal loans	9,838,588	6,066,071
Mortgage loans	68,663,345	24,920,137
<i>Corporate:</i>		
Commercial	77,947,690	55,664,458
Total	<u>156,449,623</u>	<u>86,650,666</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019 (In balboas)

11. Property, plant, equipment and improvements

	March 2019							Total
	Land	Property	Furniture and office equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	
Cost:								
At the beginning of the period	4,505,460	61,287,956	21,719,484	61,313,946	2,776,004	7,675,481	67,968,703	227,247,034
Acquisitions or purchases	72,776	2,903,656	2,773,227	1,756,750	387,410	1,868,020	9,427,171	19,189,010
Acquisition through business combination	7,891,006	23,681,169	4,807,140		67,210	-	-	36,446,525
Reclassifications	-	-	4,906,037	2,583,847	-	-	(9,818,933)	(2,329,049)
Sales and write-offs	-	-	(1,564,933)	(4,180,877)	(103,443)	(2,792)	-	(5,852,045)
At the end of the period	12,469,242	87,872,781	32,640,955	61,473,666	3,127,181	9,540,709	67,576,941	274,701,475
Accumulated depreciation and amortization:								
At the beginning of the period	-	14,295,471	13,354,555	37,747,315	1,944,506	2,276,986	-	69,618,833
Expense of the period	-	2,004,845	2,524,938	4,450,865	332,495	505,617	-	9,818,760
Reclassifications	-	-	(28,271)	-	-	-	-	(28,271)
Sales and write-offs	-	-	(1,491,751)	(4,180,847)	(113,100)	(2,516)	-	(5,788,214)
At the end of the period	-	16,300,316	14,359,471	38,017,333	2,163,901	2,780,087	-	73,621,108
Net balances	12,469,242	71,572,465	18,281,484	23,456,333	963,280	6,760,622	67,576,941	201,080,367

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

12. Other assets

	March 2019	June 2018
Goodwill (a)	98,074,923	16,762,687
Accrued interest receivable	85,369,447	53,400,678
Accounts receivable - National Treasury	72,856,191	47,761,958
Accounts receivable - related companies	34,246,639	23,923,741
Deferred income tax	27,507,565	11,517,322
Intangible assets (b)	24,283,007	8,971,762
Foreclosed assets	19,762,543	113,476
Prepaid expenses	18,930,479	7,891,924
Accounts receivable	13,879,433	11,407,334
Insurance premiums receivables, net	11,020,357	5,903,929
Guarantee deposits	9,828,181	7,393,628
Severance fund	7,091,142	5,201,406
Derivative instrument	6,832,298	8,107,789
Tax credit - agrarian subsidy	5,097,541	3,808,380
Claims to insurance companies	2,484,789	1,589,265
Legal deposits	1,213,442	1,202,710
Obligations of clients under acceptances	310,562	-
Others	24,674,770	3,684,558
	<u>463,463,309</u>	<u>218,642,547</u>

(a) Goodwill

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

Acquisition date	Company acquired	% interest acquired	March 2019	June 2018
June 1999	Banco Confederado de América Latina, S.A. (COLABANCO)	100%	8,330,187	8,330,187
December 2004	Afianzadora Colón, S.A. PROGRESO - Administradora Nacional de Inversiones, Fondos de	100%	25,000	25,000
December 2014	Pensiones y Cesantías, S.A.	100%	8,407,500	8,407,500
December 2018	Banco Panameño de la Vivienda, S.A. y Subsidiarias	99.972%	81,312,236	-
			<u>98,074,923</u>	<u>16,762,687</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

(b) *Intangible assets*

As at March 31, 2019, the condensed consolidated statement of financial position holds intangible assets for B/.24,283,007 (June 2018: B/.8,971,762) of which B/.1,389,963 resulted from the acquisition of the rights to manage the severance funds' portfolio of HSBC Investment Corporation (Panamá), S.A., by Progreso, which have an estimated life of 20 years. As a result of the acquisition of Progreso by Global Bank, intangible assets were generated for B/.8,454,809, of which B/.1,364,809 correspond to trademarks with an indefinite life and B/.7,090,000 with an estimated life for the client portfolio of 40 years. As a result of the acquisition of Banco Panameño de la Vivienda (Banvivienda), S.A. intangible assets were generated for B/.15,500,000, with an estimated life of 12 years.

	March 2019	June 2018
Cost:		
Rights to manage the severance fund portfolio of HSBC Investment Corporation (Panamá, S. A.)	1,389,963	1,389,963
Trademarks and other intangibles	8,454,809	8,454,809
Intangible assets from purchase of Banvivienda	15,500,000	-
	<u>25,344,772</u>	<u>9,844,772</u>
Accumulated amortization:		
Balance at beginning of the period	(873,010)	(621,336)
Amortization	(188,755)	(251,674)
	<u>(1,061,765)</u>	<u>(873,010)</u>
Net balance at end of the period	<u>24,283,007</u>	<u>8,971,762</u>

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 at March 31, 2019 and June 30, 2018, there were no impairment losses in goodwill or intangible assets. The valuation, made using the method of net discounted future cash flows generated by the acquired assets or business, indicates that the present value of these exceeds the carrying value of goodwill or intangible assets.

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

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

- To calculate the present value of future cash flows and determine the value of assets and businesses under assessment, the discount rate was used as the estimated average capital cost of the Bank for the periods referred to when the business unit assessed is the Bank. When the flows of asset funds or units are discounted with a profile different to the Bank, the cost of capital applicable to that activity is used in case it differs. The Bank's cost of capital is based on the average interest rates at long-term of AAA instruments in dollars, of the country risk premium and of the return premium for applicable capital investments. The cost of capital used fluctuates between 10% and 15%, and changes over time.
- The key assumptions previously described may change as economic and market conditions change. The Bank estimates that the changes reasonably possible under these assumptions do not affect the recoverable amount of the business units or falls below the carrying value.

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

13. Securities sold under repurchase agreements

As at March 31, 2019, there are repurchase agreements held for B/.72,082,860 (June 2018: B/.67,096,800), guaranteed by investments with interest rates between 3.63% and 4.26% (June 2018: 3.26% y 3.69%) with maturities in April, May and June 2019 (June 2018: August and September 2018).

14. Client deposits

March 2019		Demand	Savings	Time	Total
Economic sector					
Corporate		385,712,014	341,742,180	1,982,565,458	2,710,019,652
Personal		79,917,886	607,978,028	1,300,116,394	1,988,012,308
		<u>465,629,900</u>	<u>949,720,208</u>	<u>3,282,681,852</u>	<u>4,698,031,960</u>
Location					
Domestic		432,026,773	868,657,425	3,018,714,899	4,319,399,097
Foreign		33,603,127	81,062,783	263,966,953	378,632,863
		<u>465,629,900</u>	<u>949,720,208</u>	<u>3,282,681,852</u>	<u>4,698,031,960</u>
June 2018		Demand	Savings	Time	Total
Economic sector					
Corporate		339,340,193	174,499,957	1,484,712,102	1,998,552,252
Personal		70,850,350	468,872,824	935,782,614	1,475,505,788
		<u>410,190,543</u>	<u>643,372,781</u>	<u>2,420,494,716</u>	<u>3,474,058,040</u>
Location					
Domestic		371,820,178	588,433,763	2,246,869,513	3,207,123,454
Foreign		38,370,365	54,939,018	173,625,203	266,934,586
		<u>410,190,543</u>	<u>643,372,781</u>	<u>2,420,494,716</u>	<u>3,474,058,040</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

15. Obligations with financial institutions

	March 2019	June 2018
As of March 31, 2019, there are obligations with other banks to finance foreign trade, with several maturities up to March 2020 and annual interest rates between 2.7169% and 4.7009% (June 2018: between 2.1397% and 4.2664%).	294,470,310	298,496,799
As of March 31, 2019, there are loans received for the management of short liquidity, with renewable maturities starting Junery 2019 at interest rate between 2.1500% and 3.4033% reviewed semi-annually (June 2018: between 2.0903% and 2.1500%).	55,018,255	55,006,833
As of March 31, 2019, there are obligations with financial institutions from international organisms to manage long-term liquidity, with renewable maturities between May 2020 and January 2027 and interest rate between 4.504% and 6.201%% (June 2018: between 4.258% and 6.015%).	295,205,419	141,182,444
As of March 31, 2019, there are obligations with financial institutions from foreign banks for working capital, with multiple maturities until October 2021 and annual interest rates between 4.35388% and 4.93213% (June 2018: between 3.0784% and 4.7038%).	197,665,184	176,292,937
As of March 31, 2019, there are obligations with financial institutions from multilateral financial instituciones, with various terms and final maturities starting September 2019 up to March 2020, interest rate range between 3.9241% and 4.15%, reviewed semi-annually (June 2018: between 2.9613% and 3.79%).	30,000,000	27,000,000
	<u>872,359,168</u>	<u>697,979,013</u>

As at March 31, 2019, there are investments at fair value through other comprehensive income for B/.34,815,325 (securities available for sale June 2018: B/.40,240,264) and investments at amortized cost for B/.35,313,596 (securities held to maturity June 2018: B/.35,412,982) which guarantee these obligations with financial institutions. Additionally, there are restricted time deposits as at March 31, 2019 for B/.20,035,385 (June 2018: B/.55,991,817), which guarantee these obligations with financial institutions.

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

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

	March 2019	June 2018
Balance at the beginning of the period	697,979,013	681,794,390
Obligations received from acquisition of subsidiary	143,829,721	-
Obligations with financial institutions	1,404,210,138	1,367,495,312
Payments made	<u>(1,373,659,704)</u>	<u>(1,351,310,689)</u>
Balance at the end of the period	<u>872,359,168</u>	<u>697,979,013</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

16. 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.

<u>Series</u>	<u>Issuance date</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>March 2019</u>
C-K	Jun-18	3.25%	May-19	5,000,000
C-L	Jul-18	3.50%	Jun-19	2,000,000
C-M	Jul-18	3.50%	Jul-19	2,949,000
C-N	Aug-18	3.50%	Aug-19	5,000,000
C-O	Oct-18	3.50%	Sep-19	1,716,000
C-P	Nov-18	3.00%	May-19	1,350,000
C-Q	Mar-19	3.50%	Mar-20	1,400,000
C-N	May-18	3.88%	May-19	4,125,208
C-P	Jun-18	3.88%	Jun-19	468,213
C-V	Jul-18	4.00%	Jul-19	468,213
C-X	Aug-18	4.00%	Jul-19	968,213
C-Z	Aug-18	4.00%	Aug-19	1,968,213
D-D	Sep-18	4.00%	Sep-19	388,213
D-E	Nov-18	4.00%	Oct-19	968,213
D-F	Nov-18	4.00%	Nov-09	431,213
D-G	Nov-18	4.00%	Nov-19	1,468,213
D-H	Dec-18	3.63%	Jun-19	888,213
D-I	Dec-18	3.63%	Jun-19	968,213
D-J	Dec-18	3.63%	Jun-19	358,213
D-K	Dec-18	3.63%	Jun-19	4,968,213
D-M	Jan-19	3.75%	Jul-19	968,213
D-N	Jan-19	3.75%	Jul-19	968,213
D-O	Jan-19	3.75%	Jul-19	1,911,213
D-P	Feb-19	3.75%	Aug-19	468,213
D-Q	Feb-19	3.75%	Aug-19	4,968,213
D-R	Feb-19	4.00%	Feb-20	1,358,213
D-S	Mar-19	3.75%	Sep-19	2,568,213
D-T	Mar-19	4.00%	Mar-20	806,213
B-O	May-18	3.88%	May-19	495,959
B-Q	May-18	3.88%	May-19	2,984,959
B-S	Jun-18	3.88%	May-19	1,971,959
B-Z	Sep-18	4.00%	Sep-19	2,495,959
C-A	Nov-18	3.88%	May-19	495,959
C-B	Nov-18	4.00%	Nov-19	995,959
C-C	Dec-18	4.00%	Nov-19	4,995,959
C-D	Dec-18	3.63%	May-19	2,895,959
C-E	Dec-18	3.63%	Jun-19	1,995,959
C-F	Dec-18	3.63%	Jun-19	1,395,959
C-G	Jan-19	3.75%	Jul-19	1,735,959
C-H	Jan-19	4.00%	Jan-20	487,959
C-I	Feb-19	4.00%	Feb-20	1,779,959
C-J	Feb-19	3.75%	Aug-19	1,213,959
C-K	Feb-19	3.63%	Aug-19	4,995,959
C-L	Mar-19	3.75%	Sep-19	1,405,959
				84,212,812

<u>Series</u>	<u>Issuance date</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>June 2018</u>
C-E	Aug-17	3.25%	Jul-18	5,000,000
C-F	Sep-17	3.25%	aug-18	6,000,000
C-G	Sep-17	3.25%	Sep-18	2,471,000
C-I	Mar-18	3.25%	Mar-19	1,560,000
C-J	May-18	2.50%	Nov-18	1,127,000
C-K	Jun-18	3.25%	May-19	4,500,000
				20,658,000

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

	March 2019	June 2018
Balance at the beginning of the period	20,658,000	28,500,000
Proceeds from acquisition of subsidiary	80,641,847	-
Proceeds from issuances	50,661,965	23,058,000
Redemptions	(67,749,000)	(30,900,000)
Balance at the end of the period	<u>84,212,812</u>	<u>20,658,000</u>

17. Corporate bonds

<u>Type</u>	<u>Interest rate</u>	<u>Maturity</u>	March 2019	June 2018
E Series - May 2011 Issuance	6.00%	Apr-19	10,000,000	10,000,000
A Series - June 2014 Issuance	5.64%	Nov-18	-	75,348,549
A Series - October 2014 Issuance	5.13%	Oct-19	533,745,560	542,947,228
A Series - October 2016 Issuance	4.50%	Oct-21	673,863,089	655,476,172
B Series - August 2015 Issuance	4.75%	Aug-19	34,793,239	-
C Series - August 2015 Issuance	5.13%	Aug-20	34,793,239	-
A Series - August 2018 Issuance	5.00%	Aug-21	29,511,533	-
B Series - August 2018 Issuance	5.25%	Aug-22	24,332,532	-
C Series - August 2018 Issuance	5.50%	Aug-23	34,511,533	-
			<u>1,375,550,725</u>	<u>1,283,771,949</u>

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

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

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

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

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

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

The Bank entered into interest rate and exchange rate swaps on bonds, which qualify as fair value hedges. As at March 31, 2019, the net fair value of the hedge instrument attributable to the hedged risk decreased by B/.20,280,668 (June 2018: B/.53,769,115).

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

18. 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.

<u>Type</u>	<u>Interest rate</u>	<u>Maturity</u>	March 2019	June 2018
A Series - August 2010 Issuance	6.75%	Aug-70	1,852,000	1,852,000
B Series - November 2010 Issuance	6.75%	Aug-70	8,756,984	8,850,005
C Series - December 2010 Issuance	6.75%	Aug-70	5,658,620	5,655,772
D Series - May 2011 Issuance	6.75%	Aug-70	386,000	386,000
E Series - October 2014 Issuance	6.75%	Aug-70	694,000	694,000
			<u>17,347,604</u>	<u>17,437,777</u>

19. Perpetual bonds

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

<u>Type</u>	<u>Interest rate</u>	March 2019	June 2018
A Series - May 2016 Issuance	6.75%	23,818,562	23,791,065
B Series - July 2016 Issuance	6.75%	90,823,157	91,825,762
C Series - May 2018 Issuance	6.75%	1,161,000	97,000
		<u>115,802,719</u>	<u>115,713,827</u>

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

	March 2019	June 2018
Balance at the beginning of the period	1,416,923,553	1,577,873,359
Proceeds from acquisition of subsidiary	149,063,524	-
Proceeds from issuances	9,942,552	3,547,000
Redemptions	(89,743,406)	(133,597,826)
Valuation	20,096,890	(34,057,748)
Premium, discounts	2,417,935	3,158,768
Balance at the end of the period	<u>1,508,701,048</u>	<u>1,416,923,553</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

20. Reserves for insurance operations

Unearned premiums

	March 2019	June 2018
Balance at the beginning of period	6,210,542	5,516,386
Issued premiums	22,252,077	23,699,725
Earned premiums	(10,274,231)	(12,240,436)
Balance at the end of the period	<u>18,188,388</u>	<u>16,975,675</u>
Participation of reinsurers	(10,712,757)	(10,765,132)
Unearned premiums, net	<u>7,475,631</u>	<u>6,210,543</u>

Claims pending settlement, estimates

	March 2019	June 2018
Balance at the beginning of the period	4,954,175	4,250,783
Claims incurred	8,012,125	8,682,087
Claims paid	(8,694,601)	(7,978,695)
Claims pending settlement, net estimates	<u>4,271,699</u>	<u>4,954,175</u>
	<u>11,747,330</u>	<u>11,164,718</u>

21. Other liabilities

	March 2019	June 2018
Accrued interest payable	66,809,303	40,612,016
Other accounts payable	41,001,578	23,946,240
Cashiers' and certified checks	30,604,015	26,185,174
Hedge derivatives (a)	20,370,253	53,769,115
Employee benefits and other employee liabilities	15,361,350	14,915,682
Reserve for insurance operations	14,937,126	13,176,524
Legal deposits and others	8,397,375	6,022,104
Factoring guarantee deposits	7,131,458	5,024,276
Other reserves	3,963,418	3,403,568
Deferred tax	3,875,000	-
Income tax payable	3,086,572	184,413
Accounts payable - insurance	2,289,352	1,751,115
Special Interest Offsetting Fund (FECI) payable	1,507,364	2,387,876
Pending acceptances	310,562	-
Others	7,482,245	6,384,693
	<u>227,126,971</u>	<u>197,762,796</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

a) Hedge Derivative

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

Fair value hedge

To manage its position in the consolidated statement of financial position, interest rate swap contracts have been made on corporate bonds and term deposits of clients with a par value of B/.1,455,003,000) for both periods, which allow the conversion of a fixed interest rate into a variable rate during each payment period; and "cross currency swap" contracts on corporate bonds of B/.83,892,617 as at June 30, 2018 that allow the conversion of the fixed interest rate into a variable interest rate and cover the variability of the exchange rate during each payment period.

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

<u>Accounting method</u>	March 2019 Remaining maturity of par value		
	<u>More than 1 year</u>	<u>Less than 1 year</u>	<u>Total</u>
Fair value	905,003,000	550,000,000	1,455,003,000
Total	<u>905,003,000</u>	<u>550,000,000</u>	<u>1,455,003,000</u>

<u>Accounting method</u>	June 2018 Remaining maturity of par value		
	<u>More than 1 year</u>	<u>Less than 1 year</u>	<u>Total</u>
Fair value	1,455,003,000	83,892,617	1,538,895,617
Total	<u>1,455,003,000</u>	<u>83,892,617</u>	<u>1,538,895,617</u>

The estimated par value and fair value of the interest rate derivative instruments as at March 31, 2019 and June 30, 2018 are presented in the table below. The fair value of the derivative financial instruments is estimated using internal valuation techniques with observable market data.

<u>Type</u>	March 2019		June 2018	
	<u>Par value</u>	<u>Fair value</u>	<u>Par value</u>	<u>Fair value</u>
Fair value hedge derivatives (for financing)	1,455,003,000	(20,280,668)	1,538,895,617	(53,769,115)
Total	<u>1,455,003,000</u>	<u>(20,280,668)</u>	<u>1,538,895,617</u>	<u>(53,769,115)</u>

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

the hedge was highly effective in covering the risk of variability in interest rates that could affect the cash flows of the Bank.

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

b) Clients' and other withheld guarantees

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

22. Common shares

As at March 31, 2019, the authorized share capital of Global Bank Corporation is comprised of 2,000,000 common shares with no par value, of which 236,600 shares are issued and outstanding in the amount of B/.267,927,793 (June 2018: B/.98,202,657). As at March 31, 2019 dividends were paid on common shares for a total of B/.20,600,338 (March 2018: B/. 17,363,031).

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

23. Interest and commission income and expenses

	March 2019	March 2018
Interest earned on:		
Loans	279,494,567	241,092,881
Deposits	5,572,331	1,924,329
Investments	28,218,295	27,960,548
	<u>313,285,193</u>	<u>270,977,758</u>
Interest expense on:		
Deposits	(104,093,115)	(81,194,036)
Obligations with financial institutions and repurchase agreements	(25,471,849)	(17,337,106)
Marketable securities and bonds	(69,811,730)	(61,613,738)
	<u>(199,376,694)</u>	<u>(160,144,880)</u>
Net interest income	<u>113,908,499</u>	<u>110,832,878</u>
Commissions earned on:		
Loans	19,738,400	15,634,687
Letters of credit	2,333,294	2,399,154
Savings accounts and debit cards	4,432,472	3,953,867
Fiduciary and management services	7,493,100	6,892,536
Others	10,496,754	7,037,579
	<u>44,494,020</u>	<u>35,917,823</u>
Commission expenses	<u>(10,693,431)</u>	<u>(8,841,073)</u>
Net commissions income	<u>33,800,589</u>	<u>27,076,750</u>
Net interest and commissions income	<u>147,709,088</u>	<u>137,909,628</u>

24. Other income, net

	March 2019	March 2018
Insurance premiums, net	8,232,549	6,312,791
Net profit through profit or loss	199,560	-
Net gain on sale of securities available for sale	(4,260,360)	1,881,726
Fiduciary and brokerage services, net	79,461	106,687
Net loss on financial instruments	(1,365,076)	38,276
Other (expense) income, net	(1,483,658)	(92,208)
	<u>1,402,476</u>	<u>8,247,272</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

25. Other expenses

	March 2019	March 2018
Surveillance	1,614,471	1,514,443
Communications and correspondance	1,518,425	1,233,208
Reserve for redemption of miles	1,508,311	1,500,000
Utilities	1,367,049	1,101,739
Supplies and stationery	637,062	585,225
Insurance	156,148	261,771
Other operating expenses	6,221,516	3,456,211
Other general expenses	4,805,286	4,252,594
	<u>17,828,268</u>	<u>13,905,191</u>

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

As at March 31, 2019, key executive officers held stock options over 114,129 common shares of the Parent Company (G.B. Group Corporation) (June 2018: 118,466), of which 21,553 shares may be exercised in 2019; 51,297 may be exercised in 2020; 21,563 may be exercised in 2021; and 19,716 may be exercised in 2022 with an average strike price of B/.39.48 as at March 31, 2019 (June 2018: B/.39.47).

27. Operating lease agreements

Lease agreements

The Bank has several operating leases for its premises with periods between 1 to 5 years. For the period ended March 31, 2019, lease payments were for B/.3,981,832 (March 2018: B/.3,714,115). Minimum lease commitments under all lease agreements for the next five years are broken down below:

	March 2019	June 2018
Less than 1 year	3,610,382	3,144,847
Between 1 and 5 years	15,067,029	13,816,048
	<u>18,677,411</u>	<u>16,960,895</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

28. Commitments and contingencies

The Bank maintains financial instruments outside the condensed 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 collaterals and promissory notes, which are summarized as follows:

	March 2019	June 2018
Letters of credit	140,920,993	135,416,413
Endorsements and guarantees	503,377,396	401,781,110
Promissory notes	284,430,590	303,877,041
Unused credit lines	177,715,825	167,219,051
Total	<u>1,106,444,804</u>	<u>1,008,293,615</u>

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

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

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

As at March 31, 2019, the Bank has commitments for construction projects of its new facilities for B/.2,701,336 (June 2018: B/.5,235,789).

29. Management of trust contracts and investment portfolio

As at March 31, 2019, the Bank held trust contracts at the client's risk that amounted to B/.1,849,269,720 (June 2018: B/.1,685,708,877).

	March 2019	June 2018
Guarantee trust	1,753,032,711	1,575,099,193
Investment trust	73,571,557	84,631,961
Management trust	20,498,023	21,768,363
Assets - PLICA Contract	2,167,429	4,209,360
	<u>1,849,269,720</u>	<u>1,685,708,877</u>

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

30. Management of pension and severance funds

	March 2019	June 2018
Severance Fund	272,303,467	260,495,666
Retirement Fund (under Law No. 10)	215,113,625	216,895,666
Citibank, N. A.	4,376,002	4,823,975
Pribanco and Conase Plus	385,724	462,387
Bipan Plus	70,989	81,728
Other assets under management	771,296,296	17,169,221
	<u>1,263,546,103</u>	<u>499,928,643</u>

31. Income taxes

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

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

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

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

The current income tax expense is broken down as follows:

	March 2019	March 2018
Current income tax	6,077,049	6,664,998
Deferred income tax from temporary differences	<u>(173,204)</u>	<u>(1,646,980)</u>
Income tax	<u>5,903,845</u>	<u>5,018,018</u>

The average effective rate of the current income tax is 12.64% (June 2018: 10.81%).

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

	March 2019	June 2018
Balance at the beginning of the period	11,517,322	10,531,833
Effect of IFRS adoption	9,089,645	-
Effect of acquisition of subsidiary	6,343,554	-
Credit to profit or loss during the period	557,044	985,489
Balance at the end of the period	<u>27,507,565</u>	<u>11,517,322</u>

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

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

	March 2019	March 2018
Profit before income tax	48,072,836	57,956,512
Less: non-taxable income	(65,060,829)	(57,615,858)
Plus: non-deductible expenses	41,267,558	26,253,910
Plus: Tax loss on subsidiaries	3,676	17,517
Taxable base	<u>24,283,241</u>	<u>26,612,081</u>
Income tax calculated at 25%	6,070,760	6,653,020
Remittance income tax	6,289	11,978
Current income tax expense	<u>6,077,049</u>	<u>6,664,998</u>

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.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

32. Acquisitions

GB, AV, Inc. acquired and took control of consumer, commercial and related operations of Banco Panameño de la Vivienda, S.A. ("Banvivienda") and subsidiaries as at December 1, 2018. This acquisition was made through the purchase of 99.972% of the registered shares of these companies.

The acquisition was made to expand and consolidate the Group's leading position, for which GB AV, Inc. made payments in the amount of B/.220,075,849. The amount paid was made through: (a) cash transfers amounting to B/.142,932,706; (b) issue of 60,000,000 shares (c) deposits in an escrow account in the amount of B/.17,143,143.

The gross fair value of the assets acquired includes loans in the amount of B/.1,352,766,741. The contractual value of these loans at the acquisition date was B/.1,372,458,330, of which B/.18,259,600 are estimated to be uncollectible (impairment).

The results of the operations acquired have been included in the consolidated condensed interim financial statements since the Bank obtained control of the acquired businesses

	Amount
Assets:	
Cash and bank deposits	324,550,158
Investments in securities	71,926,980
Loans	1,352,766,741
Property, furniture, equipment and improvements	37,632,453
Other assets	131,623,244
Total assets	<u>1,918,499,576</u>
Liabilities:	
Customer deposits	1,368,102,539
Other liabilities	423,258,424
Total liabilities	<u>1,791,360,963</u>
Assets at fair value before intangibles	127,138,613
Identified intangible assets	15,500,000
Deferred income tax related	(3,875,000)
Net acquired assets	138,763,613
Purchase price paid	<u>220,075,849</u>
Goodwill	<u><u>(81,312,236)</u></u>

Below are the net cash flows of the Acquisition:

Compensation paid in cash	160,075,849
Cash and cash equivalents acquired	(285,575,415)
	<u>(125,499,566)</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

The initial accounting for the acquisition of Banvivienda has been provisionally determined at the end of the reporting period. At the date of finalization of these condensed consolidated financial statements, the market values of the financial loans and liabilities, as well as the properties available for sale and other necessary calculations had not been finalized. In addition, the adjustments to the purchase price related to the due diligence process are under review by the parties and, therefore, the fair values and goodwill have only been provisionally determined based on the best estimate of the directors.

33. Segment information

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

	March 2019			<u>Total</u>
	<u>Banking and financial activities</u>	<u>Insurance</u>	<u>Pension and severance funds</u>	
Interest and commission income	350,440,590	1,164,125	6,174,498	357,779,213
Interest and reserve expenses	218,841,698	64,809	(3,002)	218,903,505
Other income, net	(7,070,291)	8,232,549	240,218	1,402,476
Other expenses	77,964,828	2,241,632	2,180,128	82,386,588
Depreciation and amortization expense	9,713,712	17,683	87,365	9,818,760
Profit before income tax	<u>36,850,061</u>	<u>7,072,550</u>	<u>4,150,225</u>	<u>48,072,836</u>
Income tax	3,446,852	1,574,016	882,977	5,903,845
Net profit	<u>33,403,209</u>	<u>5,498,534</u>	<u>3,267,248</u>	<u>42,168,991</u>
Total assets	<u>8,301,736,974</u>	<u>47,271,147</u>	<u>20,355,558</u>	<u>8,369,363,679</u>
Total liabilities	<u>7,558,974,324</u>	<u>27,364,520</u>	<u>812,860</u>	<u>7,587,151,704</u>
	March 2018			<u>Total</u>
	<u>Banking and financial activities</u>	<u>Insurance</u>	<u>Pension and severance funds</u>	
Interest and commission income	299,935,042	1,225,474	5,735,065	306,895,581
Interest and reserve expenses	178,081,284	-	-	178,081,284
Other income, net	1,632,683	6,312,791	301,798	8,247,272
Other expenses	66,187,620	1,913,501	2,255,823	70,356,944
Depreciation and amortization expense	8,655,077	18,356	74,680	8,748,113
Profit before income tax	<u>48,643,744</u>	<u>5,606,408</u>	<u>3,706,360</u>	<u>57,956,512</u>
Income tax	3,068,171	1,114,303	835,544	5,018,018
Net profit	<u>45,575,573</u>	<u>4,492,105</u>	<u>2,870,816</u>	<u>52,938,494</u>
	June 2018			<u>Total</u>
	<u>Banking and financial activities</u>	<u>Insurance</u>	<u>Pension and severance funds</u>	
Total assets	<u>6,498,461,175</u>	<u>39,549,013</u>	<u>17,282,236</u>	<u>6,555,292,424</u>
Total liabilities	<u>5,926,317,166</u>	<u>16,662,235</u>	<u>785,546</u>	<u>5,943,764,947</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019 (In balboas)

34. Bank Subsidiaries

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

Companies	Main economic activity	Date of incorporation	Beginning of operations	Country of incorporation	Percentage of ownership
Factor Global, Inc.	Purchase of discounted invoices - Factoring	Dec-95	1995	Panama	100%
Global Financial Funds Corporation	Trust funds	Sep-95	1995	Panama	100%
Global Capital Corporation	Corporate finance and financial advisory	May-93	1994	Panama	100%
Global Capital Investment Corporation	Purchase of discounted invoices - Factoring	Jun-93	1993	British Virgin 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%
Inmobiliara Arga, S. A.	Ownership and management of real estate	Dec-09	2009	Panama	100%
Progreso, S. A.	Trust fund management	Oct-98	2014	Panama	100%
Anverli Investments Corporation	Ownership and management of real estate	Jan-17	2017	Panama	100%
GB AV, Inc.	Holding Company	Sep-18	2018	Panama	100%

35. Regulatory aspects

Below is the detail of the regulatory reserves as at March 31, 2019 and June 30, 2018:

	March 2019	June 2018
Bank reserves		
Specific reserves	3,789,438	16,203,576
Dynamic reserve	78,651,078	67,282,999
Reserve for foreclosed assets	6,861,269	4,964
Insurance reserves		
Technical reserve	2,309,006	1,732,042
Legal reserve	5,749,191	5,358,702
	<u>97,359,982</u>	<u>90,582,283</u>

Agreement 4-2013

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

Specific reserve

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

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

Loan categories

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

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

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

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

March 2019

	<u>Normal</u>	<u>Special mention</u>	<u>Subnormal</u>	<u>Doubtful</u>	<u>Uncollectible</u>	<u>Total</u>
Corporate loans	3,033,133,375	332,777,232	123,713,385	21,707,028	66,537,280	3,577,868,300
Consumer loans	2,712,736,004	85,974,247	23,551,847	16,009,436	43,940,494	2,882,212,028
Other loans	39,214,627	272	1,002	-	338	39,216,239
Total	<u>5,785,084,006</u>	<u>418,751,751</u>	<u>147,266,234</u>	<u>37,716,464</u>	<u>110,478,112</u>	<u>6,499,296,567</u>
Allowance for individual impairment	-	25,397,759	16,154,526	10,686,929	41,849,660	94,088,874
Allowance for collective impairment	<u>6,091,791</u>	-	-	-	-	<u>6,091,791</u>

June 2018

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

As at March 31, 2019, the specific reserve was in excess of the IFRS provisions calculated based on IFRS for sum of B/.3,789,438 (June 30, 2018 B/.16,203,579).

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

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

March 2019				
	<u>Current</u>	<u>Delinquent</u>	<u>Overdue</u>	<u>Total</u>
Corporate	3,440,342,799	35,917,727	101,607,774	3,577,868,300
Consumer	2,719,123,064	104,448,902	58,640,062	2,882,212,028
Other	39,214,627	272	1,340	39,216,239
Total	<u>6,198,680,490</u>	<u>140,366,901</u>	<u>160,249,176</u>	<u>6,499,296,567</u>
June 2018				
	<u>Current</u>	<u>Delinquent</u>	<u>Overdue</u>	<u>Total</u>
Corporate	2,898,122,425	4,090,974	52,217,293	2,954,430,692
Consumer	1,950,608,658	58,872,610	36,799,098	2,046,280,366
Other	7,448,582	-	342	7,448,924
Total	<u>4,856,179,665</u>	<u>62,963,584</u>	<u>89,016,733</u>	<u>5,008,159,982</u>

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

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

Loans that do not accrue interest as at March 31, 2019, amount to B/.134,846,416 (June 2018: B/.80,151,123).

Dynamic reserve

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

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

- Component No.1: The amount resulting from multiplying the balance of risk-weighted assets for loans classified in the normal category by the Alpha coefficient on the table detailed below.
- Component No.2: The amount obtained by multiplying the quarterly variation in risk-weighted assets for loans classified in the normal category; if positive, by the Beta coefficient in the following table. If the variation is negative, the amount is zero.
- Component No.3: The amount of the change in the balance of specific reserves during the quarter.

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

- Component No.2: The amount obtained by multiplying the quarterly variation in risk-weighted assets for loans classified in the normal category; if positive, by the Beta coefficient in the following table. If the variation is negative, the amount is zero.
- Component No.3: The amount of the change in the balance of specific reserves during the quarter.

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

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

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

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

Accounting treatment for differences between prudential standards and IFRSs

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

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

The amount of the dynamic reserve by component is as follows:

	March 2019	June 2018
Component 1		
Risk-weighted assets (credit facilities - normal category)	<u>4,820,336,119</u>	<u>4,251,412,218</u>
By Alpha coefficient (1.50%)	72,305,042	63,771,183
Component 2		
Quarterly variation by Beta coefficient (5.00%)	3,620,968	8,916,960
Component 3		
Less: quarterly variation of specific reserves	<u>(2,725,068)</u>	<u>5,405,144</u>
Total dynamic reserve	<u>78,651,078</u>	<u>67,282,999</u>
Restrictions:		
Total dynamic reserve:		
Minimum (1.25% of risk-weighted assets - normal category)	<u>60,254,201</u>	<u>53,142,653</u>
Maximum (2.50% of risk-weighted assets - normal category)	<u>120,508,403</u>	<u>106,285,305</u>

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

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

Off-balance sheet operations

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

March 2019						Total
	<u>Normal</u>	<u>Special mention</u>	<u>Subnormal</u>	<u>Doubtful</u>	<u>Uncollectible</u>	
Letters of credit	140,920,993	-	-	-	-	140,920,993
Endorsements and guarantees	503,377,396	-	-	-	-	503,377,396
Promissory notes	284,430,590	-	-	-	-	284,430,590
Unused credit lines	177,715,825	-	-	-	-	177,715,825
Total	<u>1,106,444,804</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,106,444,804</u>

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

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

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

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

Foreclosed assets

As at March 31, 2019, the regulatory reserve on foreclosed assets amounts to B/.6,861,269 (June 2018: B/.4,964) based on the reserve of Agreement 3-2009 of the Superintendency of Banks of Panama.

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

Premiums and notes receivable

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

- a) Suspension of coverage: when the contractor has made the payment of the first premium installment and is delayed by more than the grace period stipulated in the payment of any subsequent premium installments, in accordance to the payment Schedule established in the corresponding policy, it will be understood to have incurred in the default of payment, which will have the immediate legal effect of suspending the policy's coverage for up to sixty days.
- b) The suspension of coverage shall remain until the contractor makes the overdue payments, enabling the reestablishment of the policy's coverage from the moment of the premium payments for said period are made, or until the policy has been cancelled in accordance with the reserve of Article No.161.

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

- a) Any policy cancellation notice shall be sent to the contractor at the last physical, postal or electronic address that appears in the policy file kept by the insurance company. Copy of the cancellation notice must be issued to the insurance broker.
- b) Any change in the contractor's address must be notified to the insurance Company; otherwise, the last address on the insurance company's file will remain as the valid address.
- c) The cancellation notice of the policy for non-compliance with premium payments must be sent to the contractor in writing, fifteen business days in advance. If the notice is not sent, the contract will remain in force and the reserve in Article No.998 of the Commercial Code will apply.

Technical reserves

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

Assets admitted free of encumbrances must cover such capital reserves.

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

	Reserve for statistical deviations		Reserve for catastrophic risk and contingencies	
	March 2019	June 2018	March 2019	June 2018
Balance at the beginning of the period	866,020	736,675	866,020	736,675
Additions	<u>288,483</u>	<u>129,346</u>	<u>288,483</u>	<u>129,346</u>
Balance at the end of the period	<u>1,154,503</u>	<u>866,021</u>	<u>1,154,503</u>	<u>866,021</u>

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

Regulatory Reserve

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

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

The movement of the legal reserve is detailed below:

	March 2019	June 2018
Balance at the beginning of the period	5,358,702	4,518,323
Additions	390,489	840,379
Balance at the end of the period	<u>5,749,191</u>	<u>5,358,702</u>

Laws and Regulations:

a) *Banking Law*

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

Compliance with the regulatory body

Liquidity ratio

As at March 31, 2019, the liquidity ratio percentage reported to the regulatory body, under the parameters of Agreement 4-2008, was 48.88% (June 2018: 56.31%) (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 at March 31, 2019, the Bank holds condensed consolidated equity funds of approximately 13.33% (June 2018: 14.64%) of its risk-weighted assets, in accordance with Agreement 1-2015 and Agreement 3-2016. (See Note 4.7).

Global Bank Corporation and Subsidiaries

Notes to the condensed consolidated financial statements for the nine months ended March 31, 2019

(In balboas)

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

b) Insurance and reinsurance Law

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

c) Securities Law

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

d) Trust Law

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

e) Financial Leasing Law

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

36. Approval of the consolidated financial statements

The condensed consolidated financial statements of Global Bank Corporation and Subsidiaries for the period ended March 31, 2019 were authorized by General Management and approved by the Board of Directors for their issuance on April 29, 2019.

* * * * *