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# Global Bank Corporation and Subsidiaries

Interim condensed consolidated financial statements as of December 31, 2019 and Interim Financial Information Review Report of February 14, 2020

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

# Global Bank Corporation and Subsidiaries

## Interim Condensed Consolidated Financial Statements as of December 31, 2019

| **Content** | **Page** |
|---|---|

# Deloitte.

**Deloitte, Inc.**
Contadores Públicos Autorizados
RUC 16292-152-155203 D.V. 65
Torre Banco Panamá, piso 12
Avenida Boulevard y la Rotonda
Costa del Este, Panamá
Apartado 0816-01558
Panamá, Rep. de Panamá

Teléfono: (507) 303-4100
Fax: (507) 269-2386
infopanama@deloitte.com
www.deloitte.com/pa

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## INDEPENDENT AUDITORS' REVIEW REPORT OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors and Shareholder of
**Global Bank Corporation**

We have reviewed the accompanying condensed consolidated financial statements of **Global Bank Corporation** as of December 19, 2019 and the corresponding condensed consolidated statement of profit and loss, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the period of six months then ended, and the notes to the interim financial information, ("the condensed consolidated financial statement of the interim financial information"). Management is responsible for the preparation and fair presentation of this condensed consolidated financial statement of the interim financial information in accordance with International Auditing Standard 34 – *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated statement of the interim financial information based on our review.

### *Scope of the review*

We conducted our review in accordance with International Standard for Review Engagements 2410, "Review of Interim Financial Information by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries primarily with those persons responsible for financial and accounting matters and applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not provide assurance that we will be aware of all significant matters that might be identified in an audit. Therefore, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as of December 31, 2019 are not prepared, in all material respects, in accordance with IAS 34.

### *Complementary information*

Our review was conducted for the purpose of expressing a limited assurance described in the preceding paragraph on the condensed consolidated financial statements taken as a whole. The accompanying consolidation information as of and for the six months ended December 31, 2019, is presented for purposes of the further analysis of the condensed consolidated financial statements and is not intended to present the financial position or results of operations of the individual companies. This complementary information is Management's responsibility and is derived directly from its general accounting and other records used in preparing the condensed consolidated financial statements. The consolidating information has been subject to the review procedures applied in the review of the condensed consolidated financial statements and, based on our review, no material modifications were brought to our attention that should be made to the information in order for it to be fairly presented in all material respects in accordance with International Accounting Standard 34 ("IAS 34") *Interim Financial Reporting* as it relates to condensed consolidated interim financial statements taken as a whole.

*(Signed by Deloitte)*

February 14, 2020
Panama, Republic of Panama

**Deloitte LATCO**
**Firma miembro de**
**Deloitte Touche Tohmatsu Limited**

## Global Bank Corporation and Subsidiaries

**Condensed consolidated statement of financial position**
**As of December 31, 2019**
(In balboas)

| | Notes | December 2019 | June 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and bank deposits | 7,16 | 551,317,616 | 607,655,790 |
| Securities purchased under resale agreements | 8 | 5,061,902 | 5,061,874 |
| Investments in securities | 6,9,16 | 993,706,244 | 851,727,771 |
| Loans | 6,10 | 6,352,920,832 | 6,264,500,855 |
| Property, furniture, equipment and improvements | 11 | 201,842,030 | 200,120,952 |
| Right-of-use assets | 12 | 24,139,060 | - |
| Other assets | 6,13,31 | 464,679,156 | 490,842,419 |
| **Total assets** | | 8,593,666,840 | 8,419,909,661 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Client deposits | 6,15 | 5,131,168,452 | 4,831,380,464 |
| Bank deposits | | 98,192,318 | 66,350,205 |
| Securities sold under repurchase agreements | 14 | 26,948,400 | - |
| Obligations with financial institutions | 9,16 | 957,008,336 | 920,612,697 |
| Marketable securities | 17 | 31,950,000 | 59,409,000 |
| Corporate bonds | 18 | 1,210,283,336 | 1,442,261,398 |
| Subordinated bonds | 19 | 7,895,324 | 7,892,580 |
| Perpetual bonds | 20 | 129,900,097 | 127,659,710 |
| Lease liabilities | 12 | 24,577,415 | - |
| Other liabilities | 6,21,22 | 173,887,992 | 185,323,778 |
| **Total liabilities** | | 7,791,811,670 | 7,640,889,832 |
| **Equity** | | | |
| Common shares | 23 | 270,202,657 | 270,202,657 |
| Excess paid-in capital | 27 | 2,595,757 | 2,514,337 |
| Capital reserve | | 32,324,680 | 32,324,680 |
| Regulatory reserves | 34 | 105,708,171 | 104,182,957 |
| Fair value reserve | | 10,519,067 | 6,099,208 |
| Retained earnings | | 380,504,838 | 363,695,990 |
| **Total equity** | | 801,855,170 | 779,019,829 |
| **Total liabilities and equity** | | 8,593,666,840 | 8,419,909,661 |

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 six months ended December 31, 2019**
(In balboas)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| Interest income | 6 | 240,676,921 | 195,200,683 |
| Interest expense | 6 | (153,405,170) | (123,260,504) |
| Net interest income | 24 | 87,271,751 | 71,940,179 |
| Commission income | | 32,692,625 | 28,077,887 |
| Commission expense | | (8,019,785) | (6,684,789) |
| Net commission income | 24 | 24,672,840 | 21,393,098 |
| Net interest and commission income | 24 | 111,944,591 | 93,333,277 |
| Other income | 25 | 12,910,617 | 3,258,111 |
| | | 124,855,208 | 96,591,388 |
| **Other expenses** | | | |
| Reserve for loan impairment | 10 | 17,695,352 | 5,498,579 |
| Country risk provision | | 167,878 | - |
| Reversal of provision for the impairment of investments | | (290,518) | (23,095) |
| Salaries and other compensations | 6 | 30,374,502 | 24,680,644 |
| Professional fees | | 3,512,062 | 3,584,893 |
| Depreciation and amortization | 11,12,13 | 9,608,027 | 6,283,031 |
| Marketing and advertising | | 1,775,079 | 1,688,447 |
| Maintenance and repairs | | 5,392,465 | 4,911,644 |
| Leases | | 820,489 | 2,556,761 |
| Multiple taxes | | 3,143,325 | 2,710,836 |
| Other expenses | 26 | 12,486,275 | 11,961,585 |
| | | 84,684,936 | 63,853,325 |
| Profit before income tax | | 40,170,272 | 32,738,063 |
| Income tax: | | | |
| Current | | 3,615,324 | 3,973,851 |
| Deferred | | (1,521,814) | (463,927) |
| Income tax | 31 | 2,093,510 | 3,509,924 |
| Profit for the period | | 38,076,762 | 29,228,139 |

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 six months ended December 31, 2019**
(In balboas)

| | 2019 | 2018 |
|---|---|---|
| Profit for the period | 38,076,762 | 29,228,139 |
| **Other comprehensive income:** | | |
| **Items that can be reclassified later to profit or loss:** | | |
| Net amount transferred to profit or loss | (7,265,144) | (123,089) |
| Reserve (reversal) for investments | 32,730 | (262,108) |
| Net changes in valuation of investments at fair value through other comprehensive income | 3,699,427 | (2,074,725) |
| Effect on fair value of reclassified investments from the amortized cost category | 7,952,846 | - |
| **Other comprehensive income for the period** | 4,419,859 | (2,459,922) |
| **Total comprehensive income for the period** | 42,496,621 | 26,768,217 |

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 six months ended December 31, 2019**
(In balboas)

| | Notes | Total shareholders' equity | Common shares | Excess paid-in capital | Capital reserves | Regulatory reserves | Fair value reserves | Retained earnings |
|---|---|---|---|---|---|---|---|---|
| **Balance as of 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 9 adoption | | (29,310,192) | - | - | - | - | (845,132) | (28,465,060) |
| **Balance as of July 1, 2018** | | 582,217,285 | 98,202,657 | 2,325,817 | 32,324,680 | 90,582,283 | 420,582 | 358,361,266 |
| Profit for the period | | 29,228,139 | - | - | - | - | - | 29,228,139 |
| (Reversal) of the provision for investments at fair value through other comprehensive income | | (262,108) | - | - | - | - | (262,108) | - |
| Net changes in the valuation of investments at fair value through other comprehensive income | | (2,197,814) | - | - | - | - | (2,197,814) | - |
| **Total comprehensive income for the period** | | 26,768,217 | - | - | - | - | (2,459,922) | 29,228,139 |
| Excess paid-in capital - share option plan for employees | 27 | (55,740) | - | (55,740) | - | - | - | - |
| Issuance of common shares | | 172,000,000 | 172,000,000 | - | - | - | - | - |
| Dividends paid - common shares | 23 | (13,919,629) | - | - | - | - | - | (13,919,629) |
| Complementary tax | | (1,007,989) | - | - | - | - | - | (1,007,989) |
| Dynamic provision | 34 | - | - | - | - | 11,368,079 | - | (11,368,079) |
| Regulatory reserve | 34 | - | - | - | - | 7,002,101 | - | (7,002,101) |
| Excess regulatory reserve | 34 | - | - | - | - | 3,167,854 | - | (3,167,854) |
| Reversal of excess regulatory reserve | 34 | - | - | - | - | (16,203,579) | - | 16,203,579 |
| **Balance as of December 31, 2018** | | 766,002,144 | 270,202,657 | 2,270,077 | 32,324,680 | 95,916,738 | (2,039,340) | 367,327,332 |
| **Balance as of June 30, 2019** | | 779,019,829 | 270,202,657 | 2,514,337 | 32,324,680 | 104,182,957 | 6,099,208 | 363,695,990 |
| Profit for the period | | 38,076,762 | - | - | - | - | - | 38,076,762 |
| Provision for investments at fair value through other comprehensive income | | 32,730 | - | - | - | - | 32,730 | - |
| Net changes in the valuation of investments at fair value through other comprehensive income | | 4,387,129 | - | - | - | - | 4,387,129 | - |
| **Total comprehensive income for the period** | | 42,496,621 | - | - | - | - | 4,419,859 | 38,076,762 |
| Excess paid-in capital - share option plan for employees | 27 | 81,420 | - | 81,420 | - | - | - | - |
| Dividends paid - common shares | 23 | (19,350,030) | - | - | - | - | - | (19,350,030) |
| Complementary tax | | (392,670) | - | - | - | - | - | (392,670) |
| Regulatory reserve | 34 | - | - | - | - | 1,525,214 | - | (1,525,214) |
| **Balance as of December 31, 2019** | | 801,855,170 | 270,202,657 | 2,595,757 | 32,324,680 | 105,708,171 | 10,519,067 | 380,504,838 |

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 six months ended December 31, 2019**
(In balboas)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit for the period | | 38,076,762 | 29,228,139 |
| Adjustments for: | | | |
| Depreciation and amortization | 11,12,13 | 9,608,027 | 6,283,031 |
| Gain on sale of property, furniture and equipment | | (3,405) | (7,158) |
| Gain on sale of securities at fair value through other comprehensive income (FVTOCI) | 9 | (7,265,144) | (123,089) |
| Net gain on instruments at fair value through profit or loss | | (145,147) | (131,319) |
| Net loss in financial instruments | 25 | 4,190,625 | 1,275,491 |
| Provision for loan losses | | 17,695,352 | 5,498,579 |
| Reversal of the provision for investments | | (290,518) | (23,095) |
| Income tax | 31 | 2,093,510 | 3,509,924 |
| Net interest and commission income | 24 | (240,676,921) | (195,200,683) |
| Interest expenses | 24 | 153,405,170 | 123,260,504 |
| Share option plan for employees | 27 | 81,420 | (55,740) |
| Effect from IFRS 9 adoption | | - | (29,310,192) |
| Deferred tax | | (1,401,944) | (9,553,572) |
| | | (24,632,213) | (65,349,180) |
| Changes in: | | | |
| Deposits over 90 days | | (2,530,111) | 24,306,269 |
| Securities purchased under resale agreements | | (28) | (4,998,026) |
| Loans | | (106,115,329) | (43,784,840) |
| Other assets | | 21,584,193 | (24,961,807) |
| Client deposits | | 299,787,988 | (58,789,590) |
| Bank deposits | | 31,842,113 | 33,638,968 |
| Other liabilities | | 21,740,725 | 315,970 |
| Cash generated from (used in) operations | | 241,677,338 | (139,622,236) |
| Income tax paid | | (8,895,080) | (9,838,976) |
| Interest received | | 227,681,333 | 179,290,151 |
| Interest paid | | (153,261,631) | (125,384,443) |
| Net cash generated from (used in) operating activities | | 307,201,960 | (95,555,504) |
| **Cash flows from investment activities:** | | | |
| Acquisition of securities at fair value through other comprehensive income | | (504,372,748) | (144,461,982) |
| Sale of securities at fair value through other comprehensive income | | 410,418,176 | 152,347,260 |
| Purchase of investments at fair value through profit or loss | | - | (900,000) |
| Redemption of investments at fair value through profit or loss | | 10,000,000 | 2,000,000 |
| Purchase of investments at amortized cost | | (75,075,657) | (20,749,810) |
| Redemptions of investments at amortized cost | | 28,220,276 | 1,203,705 |
| Purchase of property, furniture and equipment | | (10,557,435) | (10,205,810) |
| Proceeds from the sales of property, furniture and equipment | | 3,405 | 7,754 |
| Acquisition of subsidiary | | - | 125,499,566 |
| Net cash flows (used in) generated from investment activities | | (141,363,983) | 104,740,683 |
| **Cash flows from financing activities:** | | | |
| Payments made from transactions of repurchase agreements | 14 | - | (772,599) |
| Proceeds from securities sold under repurchase agreements | 14 | 26,948,400 | - |
| Obligations received from financial institutions | 16 | 460,622,701 | 1,015,640,949 |
| Obligations paid to financial institutions | 16 | (424,227,062) | (980,114,649) |
| Proceeds from issuance of marketable securities | 17 | 22,000,000 | 25,308,000 |
| Payments from redemption of marketable securities | 17 | (49,459,000) | (37,164,959) |
| Proceeds from the issuance of bonds | 18,19,20 | 102,685,000 | 2,439,966 |
| Redemption of bonds | 18,19,20 | (341,844,000) | (76,398,548) |
| Dividends paid - common shares | 23 | (19,350,030) | (13,919,629) |
| Proceeds from the issuance of common shares | | - | 112,000,000 |
| Lease payment | | (1,689,601) | - |
| Complementary tax | | (392,670) | (1,007,989) |
| Net cash flows (used in) generated from financing activities | | (224,706,262) | 46,010,542 |
| Net (decrease) increase in cash and cash equivalents | | (58,868,285) | 55,195,721 |
| Cash and cash equivalents at the beginning of the period | | 559,978,798 | 382,955,937 |
| **Cash and cash equivalents at end of the period** | 7 | 501,110,513 | 438,151,658 |

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

## 1. General information

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

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

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

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

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

The main activity of the Bank and its Subsidiaries is described in Note 33.

## 2. *Basis of presentation*

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 of June 30, 2019, and for the year 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 of June 30, 2019, and for the year then ended, except for the adoption of International Financial Reporting Standards No.16 (“ IFRS 16”), with initial application date as of July 1, 2019, 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, 2019, that have had a significant effect on these 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 of December 31, 2019, and it is assessing the possible impact of these new standards on the interim condensed consolidated financial statements.

**3.1 Adoption of new and revised International Financial Reporting Standards (IFRSs):**

***IFRS 16 – Leases***

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee's accounting by eliminating the distinction between operating and finance leases. Instead, it recognizes a right of use asset and a lease liability at the beginning of all leases, except for short-term and low value leases. In contrast to the lessee's accounting, the requirements for the lessor's accounting have remained virtually unchanged. IFRS 16 replaced the practical guide included in IAS 17 - *Leases and their interpretations*. The initial application date of IFRS16 for the Bank was July 1, 2019.

The Bank has selected the implementation of the cumulative approach to updating IFRS 16 in accordance with paragraph 5 (b) of Appendix C of the standard. The Bank will not reissue financial statements with the application of the aforementioned approach contained in the Standard.

***Impact of the new definition of a lease***

The Bank has used the practical resource available in the transition to IFRS 16 so as not to reassess whether the contract is or has a lease. Therefore, the definition of a lease in accordance with IAS 17 – *Leases* and IFRIC 4 - *Determining whether an Arrangement Contains a Lease* will continue to be applied to those leases entered into or modified before July 1, 2019.

The main changes in the definition of a lease relates primarily to the control concept. IFRS 16 distinguishes between leases and service contracts based on whether an identified asset is controlled by a customer. Control is considered to exist if the client has:

- The right to obtain substantially all of the economic benefits arising from the use of an identified asset; and
- The right to direct the use of an asset.

The Bank applies the definition of a lease set out in IFRS 16 to all leases entered into or amended as of July 1, 2019 (whether it is the lessor or the lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Bank carried out an implementation project. The project has demonstrated that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Bank.

***Impact on lessee's accounting***

Lease contracts treated as operating under IAS 17.

IFRS 16 changes the way that the Bank accounts for leases previously classified as operating leases under IAS 17, which were off-balance.

On initial application of IFRS 16, for all leases (except as noted below), the Bank recognized:

a) Right-of-use assets and lease liabilities in the condensed consolidated statement of financial position, initially measured at the present value of future lease payments.
b) Depreciation of right-of-use assets and interest on lease liabilities in the condensed consolidated statement of profit or loss.
c) The total amount of cash paid as principal (presented within financing activities) and interest (presented within operating activities) in the condensed consolidated statement of cash flows.

Lease incentives (e.g. the rent-free period) are recognized as part of the measurement of right-of-use assets and lease liabilities, whereas under IAS 17, recognition of a lease incentive liability was required, which is amortized as a reduction in rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 - *Impairment of Assets*. This will replace the previous requirement to recognize a provision for onerous leases.

For short-term leases (lease term of 12 months or less) and low value leases (such as laptops and office furniture), the Bank chose to recognize a straight-line lease expense as permitted by IFRS 16.

Leases treated as finance leases under IAS 17.

The main difference between IFRS 16 and IAS 17 with respect to assets previously held as finance leases is the measurement of the residual value of the collateral provided by the lessee to the lessor. IFRS 16 requires the Bank to recognize as part of the financial liability only the amounts expected to be paid under the residual value of the guarantee, rather than the maximum guaranteed value required by IAS 17. This change does not have a material impact on the Bank's condensed consolidated interim financial statements.

Impact of the application of IFRS 16 on the 2019 financial statements.

- With the implementation of IFRS 16, there was no impact on retained earnings in its financial statements at the date of initial application since the value in use of the assets was recognized in an amount similar to the value of the lease liability, adjusted for the values of any prepaid or accrued lease payments based on the option selected from that standard.
- At the initial application date, the Bank recognized a right-to-use asset and a lease liability for B/.25,520,133. See Note 12.

The actual impacts of the adoption of the standards as of July 1, 2019 may change because:

- The new accounting policies are subject to change until the Bank presents its first annual financial statements that include the date of initial application; and
- The Bank has not completed the process of modifying and evaluating controls over its new IT processes and systems.

### 3.2 Comparative information

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

### *3.3 Reclassification of investments*

On November 26, 2019, the Bank notified the Superintendency of Banks of Panama of its decision to reclassify the securities portfolio at amortized cost to the category of securities at fair value through other comprehensive income, as a result of a change in the Bank's business model. The carrying value of the reclassification was B/.213,816,270. As a result of the reclassification, an unrealized gain of B/.7,952,846 was recognized, which was recorded in other comprehensive income.

## 4. Financial risk management

### *4.1 Objectives of financial risk management*

*Financial risk factors*

The Bank'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 of June 30, 2019.

There have been no changes in the risk management department or in any risk management policy as of June 30, 2019.

### *4.2 Credit and counterparty risk*

Credit quality analysis

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

| | December 2019 | June 2019 |
|---|---|---|
| Bank deposits | | |
| Grade 1 | 510,340,622 | 564,700,490 |
| Loans | | |
| Grade 1 | 5,718,300,687 | 5,665,095,828 |
| Grade 2 | 374,859,193 | 377,269,925 |
| Grade 3 | 130,839,286 | 123,457,752 |
| Grade 4 | 103,825,355 | 106,791,803 |
| Grade 5 | 166,878,574 | 129,170,056 |
| Gross amount | 6,494,703,095 | 6,401,785,364 |
| Allowance for individual and collective impairment | (125,630,350) | (119,714,855) |
| Unearned discounted interest | (16,151,913) | (17,569,654) |
| Carrying amount, net | 6,352,920,832 | 6,264,500,855 |
| Restructured loans | | |
| Gross amount | 203,845,781 | 163,841,165 |
| Impairment allowance | (18,458,483) | (14,291,281) |
| Net amount | 185,387,298 | 149,549,884 |
| Delinquent but not impaired | | |
| 31 to 60 days | 47,655,111 | 47,107,052 |
| 61 to 90 days | - | 23,137 |
| Sub-total | 47,655,111 | 47,130,189 |
| Allowance for loan impairment | | |
| Individual | (58,698,062) | (52,432,529) |
| Collective | (66,932,288) | (67,282,326) |
| Total impairment allowance | (125,630,350) | (119,714,855) |
| Off-balance sheet operations | | |
| Grade 1 | | |
| Letters of credit | 142,940,526 | 103,962,439 |
| Endorsements and guarantees | 499,741,753 | 480,973,681 |
| Promissory notes | 241,671,593 | 291,308,678 |
| Unused credit lines granted | 455,817,586 | 510,768,024 |
| | 1,340,171,458 | 1,387,012,822 |
| Securities purchased under resale agreements - at amortized cost | | |
| Grade 1 | 5,061,902 | 5,061,874 |
| Investments at fair value through other comprehensive income | | |
| Grade 1 | 822,474,074 | 503,970,377 |
| Investments at fair value through profit or loss | | |
| Grade 1 | 19,926,732 | 29,781,585 |
| Investments at amortized cost | | |
| Grade 1 | 151,550,421 | 318,255,206 |

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

| | December 2019 | | |
|---|---|---|---|
| | Global Bank Corporation | Subsidiaries | Total |
| Current | 6,057,835,406 | 191,013,198 | 6,248,848,604 |
| From 31 to 90 days | 78,975,917 | - | 78,975,917 |
| More than 90 days (principal or interest) | 129,900,373 | - | 129,900,373 |
| More than 30 days overdue (maturity principal) | 36,978,201 | - | 36,978,201 |
| Total | 6,303,689,897 | 191,013,198 | 6,494,703,095 |

| | June 2019 | | |
|---|---|---|---|
| | Global Bank Corporation | Subsidiaries | Total |
| Current | 6,028,517,518 | 153,806,409 | 6,182,323,927 |
| From 31 to 90 days | 90,128,086 | 163,296 | 90,291,382 |
| More than 90 days (principal or interest) | 107,482,377 | 184,604 | 107,666,981 |
| More than 30 days overdue (maturity principal) | 21,503,074 | - | 21,503,074 |
| Total | 6,247,631,055 | 154,154,309 | 6,401,785,364 |

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

In adopting IFRS 9, the Bank adjusted its methodology to estimate the credit rating of a transaction, classifying it from grade 1 to grade 5; the latter being default credits.

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.

4.2.2.1 Loan portfolio

4.2.2.1.1 Credit quality analysis of loans by stage:

**December 2019**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Classification** | | | | |
| Grade 1 | 5,598,948,555 | 119,352,132 | - | 5,718,300,687 |
| Grade 2 | - | 374,859,193 | - | 374,859,193 |
| Grade 3 | - | 130,839,286 | - | 130,839,286 |
| Grade 4 | - | 103,825,355 | - | 103,825,355 |
| Grade 5 | - | - | 166,878,574 | 166,878,574 |
| Gross amount | 5,598,948,555 | 728,875,966 | 166,878,574 | 6,494,703,095 |
| Reserve for expected losses | (16,185,999) | (50,746,289) | (58,698,062) | (125,630,350) |
| Net carrying value | 5,582,762,556 | 678,129,677 | 108,180,512 | 6,369,072,745 |

**June 2019**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Classification** | | | | |
| Grade 1 | 5,471,001,904 | 194,093,924 | - | 5,665,095,828 |
| Grade 2 | - | 377,269,925 | - | 377,269,925 |
| Grade 3 | - | 123,457,752 | - | 123,457,752 |
| Grade 4 | - | 106,791,803 | - | 106,791,803 |
| Grade 5 | - | - | 129,170,056 | 129,170,056 |
| Gross amount | 5,471,001,904 | 801,613,404 | 129,170,056 | 6,401,785,364 |
| Reserve for expected losses | (15,497,853) | (51,784,473) | (52,432,529) | (119,714,855) |
| Net carrying value | 5,455,504,051 | 749,828,931 | 76,737,527 | 6,282,070,509 |

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

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

**December 2019**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Balance at the beginning of the period | 15,497,853 | 51,784,473 | 52,432,529 | 119,714,855 |
| Changes due to financial instruments recognized as of July 1, 2019 | | | | |
| Transferred Stage 1 | 7,455,931 | (7,455,931) | - | - |
| Transferred Stage 2 | (1,737,951) | 13,297,660 | (11,559,709) | - |
| Transferred Stage 3 | (334,281) | (9,867,284) | 10,201,565 | - |
| Net effect of changes in reserve for expected credit losses | (9,354,582) | 8,314,930 | 23,139,698 | 22,100,046 |
| New financial assets originated | 6,388,342 | - | - | 6,388,342 |
| Cancelled loans | (1,729,313) | (5,327,560) | (3,736,163) | (10,793,036) |
| Written-off loans | - | - | (13,683,979) | (13,683,979) |
| Recoveries | - | - | 1,904,122 | 1,904,122 |
| Balance at the end of the period | 16,185,999 | 50,746,288 | 58,698,063 | 125,630,350 |

**June 2019**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| 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 | 30,929,776 | 15,050,606 | 39,628,680 | 85,609,062 |
| Transferred Stage 1 | 14,065,844 | (11,439,158) | (2,626,686) | - |
| Transferred Stage 2 | (21,838,404) | 44,701,872 | (22,863,468) | - |
| Transferred Stage 3 | (3,340,579) | (11,850,631) | 15,191,210 | - |
| Net effect of changes in reserve for expected credit losses | (9,309,445) | 15,766,686 | 37,934,399 | 44,391,640 |
| New financial assets originated | 11,127,601 | 4,288,241 | 10,892,544 | 26,308,386 |
| Cancelled loans | (6,136,940) | (4,733,143) | (12,033,067) | (22,903,150) |
| Written-off loans | - | - | (16,342,224) | (16,342,224) |
| Recoveries | - | - | 2,651,141 | 2,651,141 |
| Balance at the end of the period | 15,497,853 | 51,784,473 | 52,432,529 | 119,714,855 |

4.2.2.2 Investment portfolio

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

| December 2019 | With investment rating | Special monitoring | Without international rating | Total |
|---|---|---|---|---|
| Investments at fair value through other comprehensive income | 370,798,290 | 154,834,344 | 296,841,440 | 822,474,074 |
| Investments at fair value through profit or loss | 10,045,155 | - | 9,881,577 | 19,926,732 |
| Investments at amortized cost | 129,945,044 | 1,438,616 | 20,166,761 | 151,550,421 |
| Securities purchased under resale agreements | - | - | 5,061,902 | 5,061,902 |
| Total | 510,788,489 | 156,272,960 | 331,951,680 | 999,013,129 |
| Expected loss - investment at amortized cost | 16,831 | 6,513 | 221,639 | 244,983 |
| Expected loss - investments at FVTOCI | 115,315 | 1,120,857 | 1,177,680 | 2,413,852 |

| June 2019 | With investment rating | Special monitoring | Without international rating | Total |
|---|---|---|---|---|
| Investments at fair value through other comprehensive income | 152,961,939 | 90,156,005 | 260,852,433 | 503,970,377 |
| Investments at fair value through profit or loss | 19,922,008 | - | 9,859,577 | 29,781,585 |
| Investments at amortized cost | 250,119,067 | 68,136,139 | - | 318,255,206 |
| Securities purchased under resale agreements | - | - | 5,061,874 | 5,061,874 |
| Total | 423,003,014 | 158,292,144 | 275,773,884 | 857,069,042 |
| Expected loss - investment at amortized cost | 82,923 | 196,474 | - | 279,397 |
| Expected loss - investments at FVTOCI | 43,549 | 743,402 | 1,594,171 | 2,381,122 |

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

**December 2019**

| **Investments at fair value through other comprehensive income** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Balance at the beginning of the period | 2,381,122 | - | - | 2,381,122 |
| Net effect of changes in reserve for expected credit losses | (402,141) | - | - | (402,141) |
| Reclassification | 260,303 | - | - | 260,303 |
| New instruments acquired | 405,820 | - | - | 405,820 |
| Cancelled investments | (231,252) | - | - | (231,252) |
| Balance at the end of the period | 2,413,852 | - | - | 2,413,852 |

**June 2019**

| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Balance at the beginning of the period | 2,484,466 | - | - | 2,484,466 |
| Net effect of changes in reserve for expected credit losses | 64,688 | - | - | 64,688 |
| New instruments acquired | 319,652 | - | - | 319,652 |
| Cancelled investments | (487,684) | - | - | (487,684) |
| Balance at the end of the period | 2,381,122 | - | - | 2,381,122 |

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

**December 2019**

| **Investments at amortized cost** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Balance at the beginning of the period | 279,397 | - | - | 279,397 |
| Net effect of changes in reserve for expected credit losses | (18,770) | - | - | (18,770) |
| Reclassification | (260,303) | - | - | (260,303) |
| New instruments acquired | 263,145 | - | - | 263,145 |
| Cancelled investments | (18,486) | - | - | (18,486) |
| Balance at the end of the period | 244,983 | - | - | 244,983 |

**June 2019**

| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| Balance at the beginning of the period | 185,390 | - | - | 185,390 |
| Net effect of changes in reserve for expected credit losses | (1,629) | - | - | (1,629) |
| New instruments acquired | 264,236 | - | - | 264,236 |
| Cancelled investments | (168,600) | - | - | (168,600) |
| Balance at the end of the period | 279,397 | - | - | 279,397 |

4.2.2.3 Collaterals to reduce credit risk and its financial impact

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

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

| | Consumer | | | | Corporate | | |
|---|---|---|---|---|---|---|---|
| **December 2019** | **Personal** | **Credit cards** | **Vehicles** | **Mortgages** | **Commercial** | **Overdrafts** | **Total loans** |
| Loans balance | 745,008,241 | 145,772,932 | 283,266,858 | 1,771,614,139 | 3,346,783,975 | 202,256,950 | 6,494,703,095 |
| Guarantees | 364,227,260 | 4,177,270 | 421,578,014 | 2,448,546,092 | 6,422,015,414 | 357,861,513 | 10,018,405,563 |
| Exposure % subject to guarantee requirements | 49% | 3% | 149% | 138% | 192% | 177% | 154% |

| | Consumer | | | | Corporate | | |
|---|---|---|---|---|---|---|---|
| **June 2019** | **Personal** | **Credit cards** | **Vehicles** | **Mortgages** | **Commercial** | **Overdrafts** | **Total loans** |
| Loans balance | 729,501,916 | 122,926,231 | 296,146,866 | 1,734,526,046 | 3,345,121,690 | 173,562,615 | 6,401,785,364 |
| Guarantees | 362,119,439 | 3,975,165 | 434,379,555 | 2,385,021,277 | 6,343,686,745 | 287,200,520 | 9,816,382,701 |
| Exposure % subject to guarantee requirements | 50% | 3% | 147% | 138% | 190% | 165% | 153% |

*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.

| | **December 2019** | **June 2019** |
|---|---|---|
| Residential mortgage loans: | | |
| Less than 50% | 112,163,500 | 107,471,116 |
| 51% - 70% | 346,800,714 | 329,418,178 |
| 71% - 90% | 872,827,222 | 849,903,592 |
| More than 90% | 439,822,703 | 447,733,160 |
| Total | 1,771,614,139 | 1,734,526,046 |

*Time deposits placed in banks*

As of December 31, 2019, the Bank held time deposits in banks for B/.300,691,803 (June 2019: B/.418,971,436). 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 Poor's, or Baa3 by Moody's.

4.2.2.4 Credit risk concentration

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

| | December 2019 | | |
|---|---|---|---|
| | Bank deposits | Loans | Investments |
| Concentration by sector: | | | |
| Corporate | 473,734,244 | 3,388,188,424 | - |
| Consumer | - | 2,963,009,790 | - |
| Government | 36,606,378 | - | 333,575,363 |
| Other sectors | - | 143,504,881 | 665,437,766 |
| | 510,340,622 | 6,494,703,095 | 999,013,129 |
| Geographic concentration: | | | |
| Panama | 179,740,272 | 6,162,122,109 | 530,591,681 |
| Latin America and the Caribbean | 45,070,320 | 299,447,297 | 253,700,631 |
| Europe, Asia and Oceania | 93,724,323 | 33,133,689 | 20,806,855 |
| United States of America | 191,805,707 | - | 193,913,962 |
| | 510,340,622 | 6,494,703,095 | 999,013,129 |

| | June 2019 | | |
|---|---|---|---|
| | Bank deposits | Loans | Investments |
| Concentration by sector: | | | |
| Corporate | 521,372,800 | 3,393,750,745 | - |
| Consumer | - | 2,897,989,914 | - |
| Government | 43,327,690 | - | 195,854,779 |
| Other sectors | - | 110,044,705 | 661,214,263 |
| | 564,700,490 | 6,401,785,364 | 857,069,042 |
| Geographic concentration: | | | |
| Panama | 281,994,484 | 6,132,223,844 | 389,346,928 |
| Latin America and the Caribbean | 40,078,427 | 239,432,835 | 309,486,289 |
| Europe, Asia and Oceania | 79,351,645 | 30,128,685 | 60,350,289 |
| United States of America | 163,275,934 | - | 97,885,536 |
| | 564,700,490 | 6,401,785,364 | 857,069,042 |

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

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

### *4.3 Liquidity or financing risk*

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:

| | December 2019 | June 2019 |
|---|---|---|
| | **51.46%** | **56.48%** |
| Average for the period | 55.18% | 50.18% |
| Maximum for the period | 64.94% | 56.48% |
| Minimum for the period | 49.56% | 41.34% |

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:

| December 2019 | Carrying value | Undiscounted cash flows | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| Deposits | 5,229,360,770 | 5,262,725,692 | 3,323,949,325 | 1,375,132,923 | 549,311,198 | 14,332,246 |
| Repurchase agreements | 26,948,400 | 27,111,462 | 27,111,462 | - | - | - |
| Obligations with financial institutions | 957,008,336 | 1,009,527,749 | 449,856,550 | 498,276,120 | 40,633,464 | 20,761,615 |
| Marketable securities | 31,950,000 | 32,562,842 | 32,562,842 | - | - | - |
| Corporate bonds | 1,210,283,336 | 1,484,923,651 | 93,672,102 | 822,189,436 | 78,476,041 | 490,586,072 |
| Subordinated bonds | 7,895,324 | 35,408,954 | 543,717 | 1,082,977 | 1,084,463 | 32,697,797 |
| Perpetual bonds | 129,900,097 | 190,987,036 | 8,935,815 | 17,798,385 | 17,822,800 | 146,430,036 |
| | 7,593,346,263 | 8,043,247,386 | 3,936,631,813 | 2,714,479,841 | 687,327,966 | 704,807,766 |

| June 2019 | Carrying value | Undiscounted cash flows | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| Deposits | 4,897,730,669 | 4,922,375,131 | 3,102,655,322 | 1,260,791,035 | 545,489,776 | 13,438,998 |
| Obligations with financial institutions | 920,612,697 | 978,165,323 | 461,519,664 | 447,331,093 | 44,005,975 | 25,308,591 |
| Marketable securities | 59,409,000 | 60,098,926 | 60,098,926 | - | - | - |
| Corporate bonds | 1,442,261,398 | 1,666,770,372 | 399,732,720 | 817,878,693 | 77,285,556 | 371,873,403 |
| Subordinated bonds | 7,892,580 | 35,819,614 | 534,769 | 1,069,538 | 1,069,538 | 33,145,769 |
| Perpetual bonds | 127,659,710 | 191,180,743 | 8,640,146 | 17,280,293 | 17,280,293 | 147,980,011 |
| | 7,455,566,054 | 7,854,410,109 | 4,033,181,547 | 2,544,350,652 | 685,131,138 | 591,746,772 |

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

### *4.4 Market risk*

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

| December 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 | 298,091,804 | 1,000,000 | 1,600,000 | - | 250,625,812 | 551,317,616 |
| Securities purchased under resale agreements - at amortized cost | 5,036,829 | 25,073 | - | - | - | 5,061,902 |
| Investments at fair value through other comprehensive income | 278,388,186 | 58,501,198 | 196,250,147 | 242,375,579 | 46,958,964 | 822,474,074 |
| Investments at fair value through profit or loss | 9,077,934 | - | - | 967,221 | 9,881,577 | 19,926,732 |
| Investments at amortized cost | - | - | 23,064,761 | 128,485,660 | - | 151,550,421 |
| Loans | 4,989,848,606 | 18,520,193 | 155,715,708 | 1,330,618,588 | - | 6,494,703,095 |
| Total financial assets | 5,580,443,359 | 78,046,464 | 376,630,616 | 1,702,447,048 | 307,466,353 | 8,045,033,840 |
| **Financial liabilities:** | | | | | | |
| Client deposits | 2,012,999,486 | 844,306,544 | 1,908,462,392 | 14,312,155 | 449,280,193 | 5,229,360,770 |
| Resale agreements | 26,948,400 | - | - | - | - | 26,948,400 |
| Obligations with financial institutions | 957,008,336 | - | - | - | - | 957,008,336 |
| Marketable securities | 9,950,000 | 22,000,000 | - | - | - | 31,950,000 |
| Corporate bonds | 539,129,910 | 34,918,370 | 237,164,500 | 399,070,556 | - | 1,210,283,336 |
| Subordinated bonds | - | - | - | 7,895,324 | - | 7,895,324 |
| Perpetual bonds | - | - | - | 129,900,097 | - | 129,900,097 |
| Total financial liabilities | 3,546,036,132 | 901,224,914 | 2,145,626,892 | 551,178,132 | 449,280,193 | 7,593,346,263 |
| Commitments and contingencies | - | - | - | - | 1,340,171,458 | 1,340,171,458 |
| Total interest rate sensitivity | 2,034,407,227 | (823,178,450) | (1,768,996,276) | 1,151,268,916 | (141,813,840) | 451,687,577 |

| June 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 | 417,334,333 | 37,103 | 1,600,000 | - | 188,684,354 | 607,655,790 |
| Securities purchased under resale agreements - at amortized cost | 5,025,049 | 36,825 | - | - | - | 5,061,874 |
| Investments at fair value through other comprehensive income | 143,928,060 | 1,486,272 | 204,347,802 | 108,943,930 | 45,264,313 | 503,970,377 |
| Investments at fair value through profit or loss | 18,968,296 | - | - | 953,712 | 9,859,577 | 29,781,585 |
| Investments at amortized cost | - | - | 97,044,124 | 221,211,082 | - | 318,255,206 |
| Loans | 4,930,770,859 | 24,540,880 | 144,361,038 | 1,302,112,587 | - | 6,401,785,364 |
| Total financial assets | 5,516,026,597 | 26,101,080 | 447,352,964 | 1,633,221,311 | 243,808,244 | 7,866,510,196 |
| **Financial liabilities:** | | | | | | |
| Client deposits | 1,785,605,227 | 837,861,888 | 1,792,291,806 | 13,412,162 | 468,559,586 | 4,897,730,669 |
| Obligations with financial institutions | 826,980,899 | 93,631,798 | - | - | - | 920,612,697 |
| Marketable securities | 49,459,000 | 9,950,000 | - | - | - | 59,409,000 |
| Corporate bonds | 1,318,933,921 | - | 123,327,477 | - | - | 1,442,261,398 |
| Subordinated bonds | - | - | - | 7,892,580 | - | 7,892,580 |
| Perpetual bonds | - | - | - | 127,659,710 | - | 127,659,710 |
| Total financial liabilities | 3,980,979,047 | 941,443,686 | 1,915,619,283 | 148,964,452 | 468,559,586 | 7,455,566,054 |
| Commitments and contingencies | - | - | - | - | 1,387,012,822 | 1,387,012,822 |
| Total interest rate sensitivity | 1,535,047,550 | (915,342,606) | (1,468,266,319) | 1,484,256,859 | (224,751,342) | 410,944,142 |

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:

| December 2019 | Increase of 100bps | Decrease of 100bps |
|---|---|---|
| Investment securities | (31,078,959) | 33,007,816 |
| Loans | (18,292,770) | 19,560,635 |
| Time deposits | 53,228,442 | (55,042,502) |
| Obligations with financial institutions | 10,960,262 | (11,251,762) |
| Marketable securities | 193,650 | (195,209) |
| Corporate bonds | 30,589,176 | (33,192,805) |
| Subordinated and perpetual bonds | 3,204,988 | (3,553,670) |
| Net impact | 48,804,789 | (50,667,497) |

| June 2019 | Increase of 100bps | Decrease of 100bps |
|---|---|---|
| Investment securities | (32,670,774) | 34,920,364 |
| Loans | (17,900,395) | 19,179,338 |
| Time deposits | 50,325,201 | (52,076,910) |
| Obligations with financial institutions | 11,177,735 | (11,510,498) |
| Marketable securities | 196,136 | (195,227) |
| Corporate bonds | 24,652,516 | (26,792,752) |
| Subordinated and perpetual bonds | 3,669,466 | (4,039,054) |
| Net impact | 39,449,885 | (40,514,739) |

### *4.5 Capital management*

As of December 31, 2019, 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 and the new agreements, Agreements 11-2018 of September 11, 2018, modified by Agreement 3-2019 of April 30, 2019, by means of which new provisions on Operating Risk are established. Also, Agreement 2-2018 of January 23, 2018, by means of which the Superintendency of Banks has determined to take into consideration other risks to determine the capital adequacy index, among which are market risk, operating risk and country risk, to value the capital funds requirement.

The Bank maintains a regulatory capital position composed, as follows:

| | December 2019 | June 2019 |
|---|---|---|
| **Primary capital (Tier 1)** | | |
| Paid-in share capital | 270,202,657 | 270,202,657 |
| Excess paid-in capital | 2,595,757 | 2,514,337 |
| Declared reserves | 41,073,243 | 40,589,907 |
| Retained earnings | 380,504,838 | 363,695,990 |
| Other items of comprehensive income | 10,519,067 | 6,099,208 |
| Dynamic reserve | 87,863,198 | 87,863,198 |
| Sub total | 792,758,760 | 770,965,297 |
| Less: Regulatory adjustments to ordinary primary capital calculations | | |
| Trade funds | (91,695,403) | (91,695,403) |
| Other intangible assets | (23,233,140) | (24,004,810) |
| **Total primary capital funds** | 677,830,217 | 655,265,084 |
| Perpetual bonds | 129,900,097 | 127,659,710 |
| **Total additional primary capital funds** | 129,900,097 | 127,659,710 |
| Subordinated bonds | 7,895,324 | 7,892,580 |
| **Total secondary capital funds** | 7,895,324 | 7,892,580 |
| **Total capital funds** | 815,625,638 | 790,817,374 |
| **Risk-weighted assets** | | |
| Total risk-weighted assets | 5,945,453,412 | 5,664,454,845 |
| **Capital ratios** | | |
| Total regulatory capital expressed as a percentage of risk-weighted assets | 13.72% | 13.96% |
| Total Tier 1 expressed as a percentage of risk-weighted assets | 13.59% | 13.82% |

## 5. Accounting estimates, critical judgments and contingencies

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

Judgments

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

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

*(b)* Significant increase in credit risk: For stage 1 assets, the expected losses are measured as a reserve equal to 12-months expected credit losses, or lifetime expected losses for stage 2 assets or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. When assessing whether the credit risk of an asset has increased significantly, the Bank takes into account reasonable and supported prospective information, both qualitative and quantitative.

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

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

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

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

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

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

*(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.

*Fair value of financial assets and financial liabilities measured at fair value on a recurring basis at the end of the period as of December 31, 2019 and June 30, 2019*

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 |
|---|---|---|---|---|---|---|
| | December 2019 | June 2019 | | | | |
| **Investments at fair value:** | | | | | | |
| Shares issued by companies -domestic | 6,418,474 | 6,706,084 | Level 2 | Observable market prices in non-active markets. | N/A | N/A |
| Shares issued by companies -domestic | 413,839 | - | Level 3 | Share prices in non-liquid market. | Calibration prices and calibration date. | If unobservable data increases, the fair value of the instruments will decrease. |
| Shares issued by companies - foreign | 396,886 | 532,580 | Level 2 | Observable market prices in active markets. | N/A | N/A |
| Shares issued by companies - foreign listed in stock exchange | 2,500 | - | Level 3 | Share prices in non-liquid market. | Calibration prices and calibration date. | If unobservable data increases, the fair value of the instruments will decrease. |
| Private debt securities - domestic | 19,182,123 | 11,734,734 | Level 1 | Observable market prices in active markets. | N/A | N/A |
| Private debt securities - domestic | 86,569,920 | 71,722,779 | Level 2 | Observable market prices in non-active markets. | N/A | N/A |
| Private debt securities - domestic | 196,865,645 | 144,564,666 | Level 3 | Bond prices in non-liquid market. | Calibration prices and calibration date. | If unobservable data increases, the fair value of the instruments will decrease. |
| Private debt securities - foreign | 267,055,003 | 143,037,446 | Level 1 | Observable market prices in active markets. | N/A | N/A |
| Private debt securities - foreign | 9,077,934 | 18,968,296 | Level 2 | Neutral risk valuation. Discount curves are created based on libor, and default probabilities for the underlying risks are calibrated to CDS quotes. | N/A | N/A |
| Government debt securities - domestic | 32,599,444 | 29,004,532 | Level 1 | Observable market prices in active markets. | N/A | N/A |
| Government debt securities - domestic | 9,847,520 | 1,729,469 | Level 2 | Observable market prices in non-active markets. | N/A | N/A |
| Government debt securities - domestic | - | 3,331,889 | Level 3 | Bond prices in non-liquid market. | Calibration prices and calibration date. | If unobservable data increases, the fair value of the instruments will decrease. |
| Government debt securities - domestic not listed in Stock Exchange | 810,094 | - | Level 3 | Bond prices in non-liquid market. | Calibration prices and calibration date. | If unobservable data increases, the fair value of the instruments will decrease. |
| Government debt securities - foreign | 163,656,965 | 53,648,620 | Level 1 | Observable market prices in active markets. | N/A | N/A |
| Shares issued by companies - foreign not listed in stock exchange | 49,504,459 | 48,770,867 | Level 3 | Price per share, adjusted for the fair value of the issuer's properties, acquisition cost. | Growth in issuer's assets, liabilities, equity and profits. | If growth increases, the price increases and viceversa. |
| Total investments at fair value | 842,400,806 | 533,751,962 | | | | |
| **Derivative financial instruments:** | | | | | | |
| Interest rate and exchange rate swaps – fair value | (4,891,001) | (8,105,718) | Level 2 | Present value. The valuation of an interest rate swap is achieved by adding the present value of all expected swap flows, and then applying a credit adjustment. | N/A | N/A |
| Total derivative financial instruments | (4,891,001) | (8,105,718) | | | | |

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.

| | December 2019 Investments at fair value through other comprehensive income Effect on equity | |
|---|---|---|
| | **Favorable** | **(Unfavorable)** |
| Fixed income instruments | 8,511,892 | (8,004,989) |

| | June 2019 Investments at fair value through other comprehensive income Effect on equity | |
|---|---|---|
| | **Favorable** | **(Unfavorable)** |
| Fixed income instruments | 7,895,421 | (7,388,097) |

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

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

| | December 2019 | | June 2019 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Assets** | | | | |
| Cash and bank deposits | 250,625,813 | 250,625,813 | 188,684,354 | 188,684,354 |
| Time deposits | 300,691,803 | 300,691,803 | 418,971,436 | 418,971,436 |
| Securities purchased under resale agreements - at amortized cost | 5,061,902 | 5,061,902 | 5,061,874 | 5,061,874 |
| Investments at amortized cost | 151,550,421 | 152,827,960 | 318,255,206 | 329,536,325 |
| Loans | 6,352,920,832 | 6,409,660,744 | 6,264,500,855 | 6,315,723,110 |
| Total financial assets | 7,060,850,771 | 7,118,868,222 | 7,195,473,725 | 7,257,977,099 |
| **Liabilties** | | | | |
| Demand deposits | 449,280,193 | 449,280,193 | 468,559,586 | 468,559,586 |
| Savings deposits | 961,025,689 | 961,025,689 | 961,129,179 | 961,129,179 |
| Time deposits | 3,819,054,888 | 3,893,268,801 | 3,468,041,904 | 3,534,969,702 |
| Securities sold under repurchase agreements | 26,948,400 | 26,948,400 | - | - |
| Obligations with financial institutions | 957,008,336 | 954,843,576 | 920,612,697 | 920,928,851 |
| Marketable securities | 31,950,000 | 32,018,712 | 59,409,000 | 59,652,798 |
| Corporate bonds | 671,153,426 | 709,778,000 | 601,536,773 | 627,744,500 |
| Subordinated bonds | 7,895,324 | 7,999,230 | 7,892,580 | 8,010,310 |
| Perpetual bonds | 129,900,097 | 129,971,660 | 127,659,710 | 128,696,000 |
| Total financial liabilities | 7,054,216,353 | 7,165,134,261 | 6,614,841,429 | 6,709,690,926 |

| | Fair value hierarchy December 2019 | | | |
|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Level 3** |
| **Assets** | | | | |
| Cash and bank deposits | 250,625,813 | - | 250,625,813 | - |
| Time deposits | 300,691,803 | - | 300,691,803 | - |
| Securities purchased under resale agreements - at amortized cost | 5,061,902 | - | 5,061,902 | - |
| Investments at amortized cost | 152,827,960 | 135,853,597 | - | 16,974,363 |
| Loans | 6,409,660,744 | - | - | 6,409,660,744 |
| Total financial assets | 7,118,868,222 | 135,853,597 | 556,379,518 | 6,426,635,107 |
| **Liabilities** | | | | |
| Demand deposits | 449,280,193 | - | 449,280,193 | - |
| Savings deposits | 961,025,689 | - | 961,025,689 | - |
| Time deposits | 3,893,268,801 | - | 3,893,268,801 | - |
| Repurchase agreements | 26,948,400 | - | 26,948,400 | - |
| Obligations with financial institutions | 954,843,576 | - | 954,843,576 | - |
| Marketable securities | 32,018,712 | - | 32,018,712 | - |
| Corporate bonds | 709,778,000 | 585,107,000 | 89,671,000 | 35,000,000 |
| Subordinated bonds | 7,999,230 | - | 3,631,990 | 4,367,240 |
| Perpetual bonds | 129,971,660 | - | 105,795,660 | 24,176,000 |
| Total financial liabilities | 7,165,134,261 | 585,107,000 | 6,516,484,021 | 63,543,240 |

| | Fair value hierarchy June 2019 | | | |
|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Level 3** |
| **Assets** | | | | |
| Cash and bank deposits | 188,684,354 | - | 188,684,354 | - |
| Time deposits | 418,971,436 | - | 418,971,436 | - |
| Securities purchased under resale agreements | 5,061,874 | - | 5,061,874 | - |
| Securities held to maturity | 329,536,325 | 329,536,325 | - | - |
| Loans | 6,315,723,110 | - | - | 6,315,723,110 |
| Total financial assets | 7,257,977,099 | 329,536,325 | 612,717,664 | 6,315,723,110 |
| **Liabilities** | | | | |
| Demand deposits | 468,559,586 | - | 468,559,586 | - |
| Savings deposits | 961,129,179 | - | 961,129,179 | - |
| Time deposits | 3,534,969,702 | - | 3,534,969,702 | - |
| Obligations with financial institutions | - | - | - | - |
| Marketable securities | 920,928,851 | - | 920,928,851 | - |
| Corporate bonds | 59,652,798 | - | 59,652,798 | - |
| Subordinated bonds | - | - | - | - |
| Perpetual bonds | 8,010,310 | - | 8,010,310 | - |
| Total financial liabilities | 6,709,690,926 | 467,923,500 | 6,081,946,426 | 159,821,000 |

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, and investments at fair value through profit or loss in Level 3 is as follows:*

| | **December 2019** | **June 2019** |
|---|---|---|
| Balance at beginning of the period | 197,551,777 | 132,297,085 |
| Additions | 36,738,986 | 46,213,755 |
| Additions from acquisition of subsidiary | - | 119,752 |
| Reclassifications from Level 2 to Level 3 | 27,072,627 | 56,687,645 |
| Reclassifications from Level 3 to Level 2 | (6,359,509) | (4,456,822) |
| Net changes in securities | 783,868 | 1,725,609 |
| Redemptions | (8,191,212) | (35,035,247) |
| Balance at the end of the period | 247,596,537 | 197,551,777 |

As of December 31, 2019, Level 3 investments in shares at fair value of B/.49,504,460 (June 2019: B/.48,770,867), have been recognized at cost since, according to Management, the cost approximates its fair value.

As of December 31, 2019, Level 3 investments at fair value through other comprehensive income did not affect the Bank’s profits.

The total unrealized gain or loss for Level 3 investments at fair value through other comprehensive income as of December 31, 2019, is B/.177,172 (June 2019: B/.606,696).

As of December 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.

## 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:

| | December 2019 | June 2019 |
|---|---|---|
| *Transactions with related companies* | | |
| **Condensed consolidated statement of financial position** | | |
| ***Assets*** | | |
| Investments at fair value through other comprehensive income | 14,849,390 | 17,970,923 |
| Loans | 60,698,889 | 47,012,367 |
| Accrued interest receivable | 203,938 | 58,792 |
| Other assets | 36,744,658 | 39,358,565 |
| ***Liabilities*** | | |
| ***Client deposits:*** | | |
| Demands | 12,415,408 | 17,272,104 |
| Savings | 27,143,268 | 14,244,785 |
| Time | 107,134,680 | 107,284,509 |
| Accrued interest payable | 238,913 | 232,778 |
| **Commitments and contingencies** | 41,359,500 | 42,859,500 |

**Condensed consolidated statement of profit or loss**

| | December 2019 | December 2018 |
|---|---|---|
| ***Income and expenses*** | | |
| Interest and dividend income | 1,544,772 | 1,887,432 |
| Interest expense | 2,357,248 | 1,513,562 |

| | December 2019 | June 2019 |
|---|---|---|
| *Transactions with Directors and key management personnel* | | |
| **Consolidated statement of financial position** | | |
| ***Assets*** | | |
| Loans | 12,950,337 | 13,054,033 |
| Accrued interest receivable | 42,432 | 38,282 |
| ***Liabilities*** | | |
| ***Client deposits:*** | | |
| Demand | 2,290,524 | 2,939,251 |
| Savings | 9,971,702 | 7,368,865 |
| Time | 43,164,891 | 41,113,166 |
| Accrued interest payable | 530,788 | 130,564 |
| ***Commitments and contingencies*** | 1,486,500 | 1,741,500 |

| | December 2019 | December 2018 |
|---|---|---|
| **Consolidated statement of profit and loss** | | |
| ***Income and expenses*** | | |
| Interest income | 309,322 | 308,375 |
| Interest expenses | 948,949 | 756,323 |
| ***Benefits of key Management personnel*** | | |
| Salaries | 1,941,919 | 2,034,276 |
| Share option plan for employees | 81,420 | (55,740) |
| Allowances for Directors | 293,500 | 224,000 |
| | 2,316,839 | 2,202,536 |

As of December 31, 2019, collaterals guaranteeing loans to related parties amounted to B/.119,757,262 (June 2019: B/.135,257,324), which correspond to property, assets and securities.

As of December 31, 2019, no loans with related parties show evidence of impairment. As of December 31, 2019, loans with related parties with maturities between January 2020 and September 2048 and annual interest rates ranging between 0.75% and 9.00% (June 2019: with maturities between July 2019 and September 2048 and annual interest rates ranging between 0.75% and 9%).

## 7. Cash and cash equivalents

| | December 2019 | June 2019 |
|---|---|---|
| Cash and cash equivalents | 40,976,994 | 42,955,300 |
| Demand deposits | 209,648,819 | 145,729,054 |
| Time deposits | 300,691,803 | 418,971,436 |
| Cash and bank deposits | 551,317,616 | 607,655,790 |
| Less: | | |
| Restricted time deposits | (23,200,000) | (29,062,681) |
| Time deposits with original maturities greater than 90 days | (27,007,103) | (18,614,311) |
| Cash and cash equivalents for purposes of the condensed consolidated statement of cash flows | 501,110,513 | 559,978,798 |

As of December 31, 2019, there were fixed time deposits with original maturities greater than 90 days for B/.27,007,103 (June 2019: B/.18,614,311). In addition, there are fixed time deposits restricted for B/.23,200,000 (June 2019: B/.29,062,681) that guarantee financial obligations

## 8. Securities purchased under resale agreements

As of December 31, 2019, securities purchased under resale agreements for B/.5,061,902 (June 2019: B/.5,061,874) with maturities in March, May, and September 2020, (June 2019: with maturities in August 2019, September 2019 and May 2020), are guaranteed by corporate bonds and shares.

## 9. Investments in securities

The breakdown of investments in securities is as follows:

| | December 2019 | June 2019 |
|---|---|---|
| Investments at fair value through other comprehensive income | 822,474,074 | 503,970,377 |
| Investments at fair value through profit or loss | 19,926,732 | 29,781,585 |
| Investments at amortized cost | 151,550,421 | 318,255,206 |
| Impairment allowance | (244,983) | (279,397) |
| Investments in securities, net | 993,706,244 | 851,727,771 |

## 9.1 Investments at fair value through other comprehensive income

| | December 2019 | June 2019 |
|---|---|---|
| Securities listed in stock exchange: | | |
| Shares issued by companies - domestic | 1,815,313 | 1,711,084 |
| Shares issued by companies - foreign | 396,886 | 532,580 |
| Private debt securities - domestic | 302,617,688 | 228,022,179 |
| Private debt securities - foreign | 266,087,782 | 142,083,734 |
| Government debt securities - domestic | 42,446,964 | 34,065,890 |
| Government debt securities - foreign | 163,656,965 | 53,648,620 |
| | 777,021,598 | 460,064,087 |
| Securities not listed in stock exchange: | | |
| Shares issued by companies - domestic | 44,639,882 | 42,900,897 |
| Shares issued by companies - foreign | 2,500 | - |
| Government debt securities - domestic | 810,094 | 1,005,393 |
| | 45,452,476 | 43,906,290 |
| | 822,474,074 | 503,970,377 |

Investments at fair value through other comprehensive income accrued interest at a rate ranging from 2.0395% and 9.375% (June 2019: 2.10% and 9.75%)

As of December 31, 2019, there are investments at fair value through other comprehensive income for B/.3,023,490 (June 2019: B/.34,991,892), which guarantee obligations with financial institutions (See Note 16).

As of December 31, 2019, there are investments at fair value through other comprehensive income for B/.37,262,843, that guarantee securities sold under repurchase agreements (See Note 14).

As of December 31, 2019, the Bank sold and redeemed investments for B/.410,418,176 (June 2019: B/.388,886,673) and, as a result, recorded a gain of B/.7,265,144 (December 2018: B/.123,089), which is included in the condensed consolidated statement of profit or loss.

### 9.2 Investments at fair value through profit or loss

Investments at fair value through profit or loss are as follows:

| | December 2019 | June 2019 |
|---|---|---|
| Securities listed in the stock exchange | | |
| Corporate shares - domestic | 5,017,000 | 4,995,000 |
| Private debt securities - foreign | 10,045,155 | 19,922,008 |
| | 15,062,155 | 24,917,008 |
| Securities not listed in the stock exchange | | |
| Corporate shares - domestic | 4,864,577 | 4,864,577 |
| | 4,864,577 | 4,864,577 |
| | 19,926,732 | 29,781,585 |

### 9.3 Investments at amortized cost

| | December 2019 | | June 2019 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| Securities listed in the stock exchange: | | | | |
| Private debt securities - domestic | 20,166,761 | 16,974,363 | 3,050,006 | 3,084,360 |
| Private debt securities - foreign | - | - | 213,126,475 | 219,897,796 |
| Government debt securities - domestic | 108,213,402 | 111,620,922 | 63,670,027 | 66,707,268 |
| Government debt securities - foreign | 23,170,258 | 24,232,675 | 38,408,698 | 39,846,901 |
| | 151,550,421 | 152,827,960 | 318,255,206 | 329,536,325 |

As of December 31, 2019, the annual interest rate earned by investments at amortized cost range between 2.85% and 8.875% (June 2019: 3.125% and 5.182%).

As of December 31, 2019, there are investments at amortized cost for B/.20,684,718 (June 2019: B/.35,239,338), which guarantee obligations with financial institutions. (See Note 16).

As of December 31, 2019, securities at amortized cost of B/.213,816,270 were reclassified to the securities category at fair value through other comprehensive income.

## 10. Loans

| | December 2019 | | | June 2019 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Impairment allowance | Net amount | Gross amount | Impairment allowance | Net amount |
| *Domestic:* | | | | | | |
| Consumer | 1,116,005,392 | (31,009,755) | 1,084,995,637 | 1,091,040,057 | (25,603,592) | 1,065,436,465 |
| Commercial | 1,327,176,867 | (22,242,971) | 1,304,933,896 | 1,265,781,283 | (26,620,592) | 1,239,160,691 |
| Agricultural | 404,743,995 | (9,082,878) | 395,661,117 | 432,892,025 | (10,690,954) | 422,201,071 |
| Pledge | 124,921,470 | (886) | 124,920,584 | 131,332,191 | (2,281) | 131,329,910 |
| Overdrafts | 157,150,476 | (3,096,796) | 154,053,680 | 132,118,688 | (2,219,469) | 129,899,219 |
| Mortgage | 1,771,614,139 | (13,296,871) | 1,758,317,268 | 1,734,526,046 | (13,203,769) | 1,721,322,277 |
| Industrial | 224,014,351 | (4,903,246) | 219,111,105 | 235,750,711 | (5,428,161) | 230,322,550 |
| Construction | 729,939,638 | (25,509,779) | 704,429,859 | 827,052,067 | (19,548,473) | 807,503,594 |
| Financial leasings | 58,813,970 | (1,987,363) | 56,826,607 | 62,665,605 | (2,002,293) | 60,663,312 |
| Factoring | 247,741,811 | (10,541,234) | 237,200,577 | 219,065,171 | (11,338,126) | 207,727,045 |
| Total domestic | 6,162,122,109 | (121,671,779) | 6,040,450,330 | 6,132,223,844 | (116,657,710) | 6,015,566,134 |
| *Foreign:* | | | | | | |
| Commercial | 177,793,179 | (1,053,781) | 176,739,398 | 131,199,440 | (1,023,058) | 130,176,382 |
| Agricultural | 836,894 | (2,574) | 834,320 | 947,706 | (3,773) | 943,933 |
| Industrial | 39,833,297 | (170,848) | 39,662,449 | 40,283,960 | (131,809) | 40,152,151 |
| Construction | 51,041,120 | (2,711,406) | 48,329,714 | 37,716,466 | (1,883,110) | 35,833,356 |
| Pledge | 17,970,022 | - | 17,970,022 | 17,970,022 | - | 17,970,022 |
| Overdrafts | 45,106,474 | (19,962) | 45,086,512 | 41,443,926 | (15,395) | 41,428,531 |
| Total foreign | 332,580,986 | (3,958,571) | 328,622,415 | 269,561,520 | (3,057,145) | 266,504,375 |
| | 6,494,703,095 | (125,630,350) | 6,369,072,745 | 6,401,785,364 | (119,714,855) | 6,282,070,509 |
| Less: | | | | | | |
| Discounted unearned interest and commissions | | | (16,151,913) | | | (17,569,654) |
| Total | | | 6,352,920,832 | | | 6,264,500,855 |

As of December 31, 2019, the loan portfolio accrued interest at a rate ranging from 0.75% to 25.99% (June 2019: 0.75% to 24%).

As of December 31, 2019, there are loans that guarantee corporate bonds for a total of B/.201,379,860.

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

| | December 2019 | June 2019 |
|---|---|---|
| Fixed rate | 771,578,958 | 730,258,287 |
| Adjustable rate | 5,565,118,121 | 5,529,408,560 |
| Floating rate (Libor or Prime) | 158,006,016 | 142,118,517 |
| | 6,494,703,095 | 6,401,785,364 |

The movement of the impairment allowance is summarized as follows:

| | December 2019 | June 2019 |
|---|---|---|
| Balance at the beginning of the period | 119,714,855 | 47,209,225 |
| Reserve resulting from acquisition of subsidiary | - | 18,374,780 |
| Reserve charged to expenses | 17,695,352 | 29,422,096 |
| Reserve transferred to retained earnings - Adoption IFRS 9 | - | 38,399,837 |
| Recoveries | 1,904,122 | 2,651,141 |
| Written-off loans | (13,683,979) | (16,342,224) |
| Balance at the end of the period | 125,630,350 | 119,714,855 |

*Financial leasing*

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

| | December 2019 | June 2019 |
|---|---|---|
| Less than 1 year | 4,415,885 | 4,056,430 |
| 1 to 5 years | 54,398,085 | 58,609,175 |
| Total | 58,813,970 | 62,665,605 |
| Less: unearned interest | (9,905,702) | (9,587,520) |
| Total financial leasing | 48,908,268 | 53,078,085 |

*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 of December 31, 2019, restructured loans that would otherwise be overdue or impaired amount to B/.203,845,782 (June 2019: B/.163,841,165).

| | December 2019 | June 2019 |
|---|---|---|
| *Consumer:* | | |
| Personal loans | 15,213,401 | 12,058,613 |
| Mortgage | 83,797,371 | 77,645,266 |
| *Corporate:* | | |
| Commercial | 104,835,010 | 74,137,286 |
| Total | 203,845,782 | 163,841,165 |

## 11. Property, plant, equipment and improvements

**December 2019**

| | Land | Property | Furniture and office equipment | Computer equipment | Vehicles | Leasehold improvements | Projects in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| At the beginning of the period | 12,396,467 | 82,210,152 | 28,066,812 | 70,435,546 | 3,273,242 | 15,607,440 | 66,379,845 | 278,369,504 |
| Acquisitions or purchases | - | - | 52,429 | 380,998 | 359,050 | 975 | 8,388,854 | 9,182,306 |
| Reclassifications | - | 1,250,979 | 1,367,568 | 1,619,255 | - | - | (4,237,802) | - |
| Sales and write-offs | - | (5,879) | (127,368) | (271,142) | (79,925) | (304,445) | - | (788,759) |
| At the end of the period | 12,396,467 | 83,455,252 | 29,359,441 | 72,164,657 | 3,552,367 | 15,303,970 | 70,530,897 | 286,763,051 |
| **Accumulated depreciation and amortization:** | | | | | | | | |
| At the beginning of the period | - | 16,797,029 | 14,923,798 | 40,235,040 | 2,279,049 | 4,013,636 | - | 78,248,552 |
| Expense of the period | - | 1,367,493 | 1,836,176 | 3,592,330 | 225,112 | 434,173 | - | 7,455,284 |
| Sales and write-offs | - | (5,879) | (123,558) | (269,008) | (79,925) | (304,445) | - | (782,815) |
| At the end of the period | - | 18,158,643 | 16,636,416 | 43,558,362 | 2,424,236 | 4,143,364 | - | 84,921,021 |
| **Net balances** | 12,396,467 | 65,296,609 | 12,723,025 | 28,606,295 | 1,128,131 | 11,160,606 | 70,530,897 | 201,842,030 |

**June 2019**

| | Land | Property | Furniture and office equipment | Computer equipment | Vehicles | Leasehold improvements | Projects in progress | Total |
|---|---|---|---|---|---|---|---|---|
| **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 | - | 2,904,515 | 416,566 | 2,070,577 | 537,410 | 1,870,120 | 11,899,456 | 19,698,644 |
| Assets acquired from Banvivienda | 7,891,007 | 17,574,300 | 2,046,730 | 3,862,700 | 78,071 | 6,179,645 | - | 37,632,453 |
| Reclassifications | - | 443,381 | 5,461,806 | 7,565,890 | - | 17,237 | (13,488,314) | - |
| Sales and write-offs | - | - | (1,577,774) | (4,377,567) | (118,243) | (135,043) | - | (6,208,627) |
| At the end of the period | 12,396,467 | 82,210,152 | 28,066,812 | 70,435,546 | 3,273,242 | 15,607,440 | 66,379,845 | 278,369,504 |
| **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 | - | 2,501,558 | 3,142,427 | 8,783,680 | 447,643 | 1,871,418 | - | 16,746,726 |
| Sales and write-offs | - | - | (1,573,184) | (6,295,955) | (113,100) | (134,768) | - | (8,117,007) |
| At the end of the period | - | 16,797,029 | 14,923,798 | 40,235,040 | 2,279,049 | 4,013,636 | - | 78,248,552 |
| **Net balances** | 12,396,467 | 65,413,123 | 13,143,014 | 30,200,506 | 994,193 | 11,593,804 | 66,379,845 | 200,120,952 |

## 12. Right-of-use assets and lease liabilities

(a) Right-of-use assets

Right-of-use assets are presented below:

| December 31, 2019 | Building and properties |
|---|---|
| **Cost:** | |
| Balance as at July 1, 2019 | 25,520,133 |
| Balance at the end of the period | 25,520,133 |
| **Accumulated depreciation and amortization:** | |
| Balance at the beginning of the period | - |
| Expense of the period | 1,381,073 |
| Balance at the end of the period | 1,381,073 |
| **Net balance** | 24,139,060 |

Amounts recognized in the condensed consolidated statement of profit or loss:

| | December 2019 |
|---|---|
| Depreciation expense on right-of-use assets | 1,381,073 |
| Interest expense on lease liabilities | 416,546 |
| | 1,797,619 |

(b) Lease liabilities

The following table shows the maturity terms of contingent operating lease commitments under IAS 17 and its new application by the adoption of IFRS 16.

| | Adoption of IFRS 16 standard<br>December 2019 |
|---|---|
| Up to 1 year | 2,899,672 |
| Between 1 and 5 years | 9,804,139 |
| 5 years or more | 11,873,604 |
| Total | 24,577,415 |

## 13. Other assets

| | December 2019 | June 2019 |
|---|---|---|
| Goodwill (a) | 91,695,403 | 91,695,403 |
| Accrued interest receivable | 88,110,821 | 80,920,566 |
| Accounts receivable - National Treasury | 46,678,584 | 79,311,376 |
| Account receivable - related companies | 36,744,658 | 39,358,565 |
| Accounts receivable | 31,205,361 | 38,739,766 |
| Guarantee deposits | 27,467,536 | 23,282,212 |
| Deferred income tax | 27,280,369 | 25,878,425 |
| Intangible assets (b) | 23,233,140 | 24,004,810 |
| Foreclosed assets | 22,554,351 | 21,300,081 |
| Prepaid expenses | 17,065,320 | 19,711,111 |
| Insurance premiums receivable, net | 14,837,919 | 12,810,310 |
| Severance Fund | 6,791,986 | 7,249,892 |
| Tax credit - agrarian subsidy | 3,740,636 | 4,283,129 |
| Legal deposits | 3,276,690 | 1,193,710 |
| Claims to insurance companies | 2,865,406 | 2,009,565 |
| Derivative instrument | 2,588,100 | 6,832,298 |
| Client obligations by acceptances | 277,525 | - |
| Others | 18,265,351 | 12,261,200 |
| | 464,679,156 | 490,842,419 |

*(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 | December 2019 | June 2019 |
|---|---|---|---|---|
| June 1999 | Banco Confederado de América Latina, S.A. (COLABANCO) | 100% | 8,330,187 | 8,330,187 |
| December 2004 | Afianzadora Colón, S.A. | 100% | 25,000 | 25,000 |
| December 2014 | PROGRESO - Administradora Nacional de Inversiones, Fondos de Pensiones y Cesantías, S.A. | 100% | 8,407,500 | 8,407,500 |
| December 2018 | Banco Panameño de la Vivienda, S.A. y Subsidiarias | 99.972% | 74,932,716 | 74,932,716 |
| | | | 91,695,403 | 91,695,403 |

*(b) Intangible assets*

| | December 2019 | June 2019 |
|---|---|---|
| **Cost:** | | |
| Rights to manage the severance fund portfolio of HSBC Investment Corporation (Panamá, S. A.) | 1,389,963 | 1,389,963 |
| Tradermarks and other intangibles | 8,454,809 | 8,454,809 |
| Intangible assets from purchase of Banvivienda | 15,500,000 | 15,500,000 |
| | 25,344,772 | 25,344,772 |
| **Accumulated amortization:** | | |
| Balance at beginning of the period | (1,339,962) | (873,010) |
| Amortization | (771,670) | (466,952) |
| | (2,111,632) | (1,339,962) |
| Net balance at end of the period | 23,233,140 | 24,004,810 |

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

## 14. Securities sold under repurchase agreements

As of December 31, 2019, there are repurchase agreements held for B/.26,948,400, guaranteed by investments at fair value through other comprehensive income for B/.37,262,843, at an interest rate of 2.984%, with maturity on March 2020.

## 15. Client deposits

**December 2019**

| | Demand | Savings | Time | Total |
|---|---|---|---|---|
| Economic sector | | | | |
| Corporate | 372,014,195 | 341,396,189 | 2,367,785,322 | 3,081,195,706 |
| Personal | 77,265,998 | 619,629,500 | 1,353,077,248 | 2,049,972,746 |
| | 449,280,193 | 961,025,689 | 3,720,862,570 | 5,131,168,452 |
| Sector | | | | |
| Domestic | 423,130,707 | 876,766,023 | 3,005,285,226 | 4,305,181,956 |
| Foreign | 26,149,486 | 84,259,666 | 715,577,344 | 825,986,496 |
| | 449,280,193 | 961,025,689 | 3,720,862,570 | 5,131,168,452 |

**June 2019**

| | Demand | Savings | Time | Total |
|---|---|---|---|---|
| Economic sector | | | | |
| Corporate | 389,696,097 | 352,338,780 | 2,082,266,611 | 2,824,301,488 |
| Personal | 78,863,489 | 608,790,399 | 1,319,425,088 | 2,007,078,976 |
| | 468,559,586 | 961,129,179 | 3,401,691,699 | 4,831,380,464 |
| Sector | | | | |
| Domestic | 438,455,898 | 870,485,068 | 3,001,329,060 | 4,310,270,026 |
| Foreign | 30,103,688 | 90,644,111 | 400,362,639 | 521,110,438 |
| | 468,559,586 | 961,129,179 | 3,401,691,699 | 4,831,380,464 |

## 16. Obligations with financial institutions

| | December 2019 | June 2019 |
|---|---|---|
| As of December 31, 2019, there are obligations with other banks to finance foreign trade, with several maturities up to December 2020 and annual interest rates between 1.9093% and 4.5190% (June 2019: between 2.5509% and 4.5441%). | 284,939,148 | 316,799,430 |
| As of December 31, 2019, there are loans received for the management of short liquidity, with renewable maturities starting May 2020 at interest rate between 2.15% and 3.30% reviewed semi-annually (June 2019: between 2.1500% and 3.3000%). | 17,006,833 | 55,006,833 |
| As of December 31, 2019, there are obligations with financial institutions from international organisms to manage long-term liquidity, with renewable maturities between May 2020 and June 2024 and interest rate between 3.655% and 5.654% (June 2019: betwenn 3.960% and 6.151%). | 305,378,847 | 218,231,830 |
| As of December 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 3.01463% and 4.93213% (June 2019: between 4.05000% and 4.93213%). | 185,832,021 | 233,093,007 |
| As of December 31, 2019, there are obligations with financial institutions from multilateral financial instituciones, with various terms and final maturities starting March 2020 up to January 2027, interest rate range between 3.4695% and 3.982%, reviewed semi-annually (June 2019: between 3.9241% and 4.723%). | 163,851,487 | 97,481,597 |
| | 957,008,336 | 920,612,697 |

As of December 31, 2019, there are investments at fair value through other comprehensive income for B/.3,023,490 (June 2019: B/.34,991,892) and investments at amortized cost for B/.20,684,718 (June 2019: B/.35,239,338) which guarantee these obligations with financial institutions. Additionally, there are restricted time deposits as of December 31, 2019 for B/.23,200,000 (June 2019: B/.29,062,681), 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 reconsolidated statement of cash flows:

| | December 2019 | June 2019 |
|---|---|---|
| Balance at the beginning of the period | 920,612,697 | 697,979,013 |
| Obligations received as a result of acquisition of subsidiary | - | 143,829,721 |
| Obligations received | 460,622,701 | 1,653,567,612 |
| Payments made | (424,227,062) | (1,574,763,649) |
| Balance at the end of the period | 957,008,336 | 920,612,697 |

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

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

| Series | Issuance date | Interest rate | Maturity | December 2019 |
|---|---|---|---|---|
| C-Q | Mar-19 | 3.50% | Mar-20 | 2,000,000 |
| C-S | May-19 | 3.50% | May-20 | 1,306,000 |
| C-T | May-19 | 3.50% | May-20 | 1,000,000 |
| C-U | Jun-19 | 3.50% | Jun-20 | 1,000,000 |
| C-V | Jul-19 | 3.50% | Jul-20 | 3,000,000 |
| C-W | Aug-19 | 3.50% | Jul-20 | 1,000,000 |
| C-X | Aug-19 | 3.50% | Aug-20 | 4,000,000 |
| C-Y | Sept-19 | 3.50% | Sept-20 | 2,000,000 |
| C-Z | Oct-19 | 3.25% | Oct-20 | 5,000,000 |
| D-A | Oct-19 | 3.00% | Oct-20 | 2,000,000 |
| D-B | Nov-19 | 3.00% | Nov-20 | 3,000,000 |
| D-C | Nov-19 | 3.00% | Nov-20 | 2,000,000 |
| D-R | Feb-19 | 4.00% | Feb-20 | 1,390,000 |
| D-T | Mar-19 | 4.00% | Mar-20 | 838,000 |
| C-H | Jan-19 | 4.00% | Jan-20 | 632,000 |
| C-I | Feb-19 | 4.00% | Feb-20 | 1,784,000 |
| | | | | 31,950,000 |

| Series | Issuance date | Interest rate | Maturity | June 2019 |
|---|---|---|---|---|
| C-M | Jul-18 | 3.50% | Jul-19 | 2,949,000 |
| C-N | Aug-18 | 3.50% | Aug-19 | 5,000,000 |
| C-O | Sept-18 | 3.50% | Sept-19 | 1,716,000 |
| C-Q | Mar-19 | 3.50% | Mar-20 | 2,000,000 |
| C-R | Apr-19 | 3.00% | Oct-19 | 3,000,000 |
| C-S | May-19 | 3.50% | May-20 | 1,306,000 |
| C-T | May-19 | 3.50% | May-20 | 1,000,000 |
| C-U | Jun-19 | 3.50% | Jun-20 | 1,000,000 |
| D-M | Jan-19 | 3.75% | Jul-19 | 1,000,000 |
| D-N | Jan-19 | 3.75% | Jul-19 | 1,000,000 |
| C-V | Jul-18 | 4.00% | Jul-19 | 500,000 |
| C-X | Aug-18 | 4.00% | Jul-19 | 1,000,000 |
| D-O | Jan-19 | 3.75% | Jul-19 | 1,943,000 |
| D-P | Feb-19 | 3.75% | Aug-19 | 500,000 |
| C-Z | Aug-18 | 4.00% | Aug-19 | 2,000,000 |
| D-Q | Feb-19 | 3.75% | Aug-19 | 5,000,000 |
| D-D | Sept-18 | 4.00% | Sept-19 | 420,000 |
| D-S | Mar-19 | 3.75% | Sept-19 | 2,600,000 |
| D-E | Nov-18 | 4.00% | Oct-19 | 1,000,000 |
| D-F | Nov-18 | 4.00% | Nov-19 | 463,000 |
| D-G | Nov-18 | 4.00% | Nov-19 | 1,500,000 |
| D-R | Feb-19 | 4.00% | Feb-20 | 1,390,000 |
| D-T | Mar-19 | 4.00% | Mar-20 | 838,000 |
| C-G | Jan-19 | 3.75% | Jul-19 | 1,740,000 |
| C-J | Feb-19 | 3.75% | Aug-19 | 1,218,000 |
| C-K | Feb-19 | 3.63% | Aug-19 | 5,000,000 |
| B-Z | Sept-18 | 4.00% | Sept-19 | 2,500,000 |
| C-L | Mar-19 | 3.75% | Sept-19 | 1,410,000 |
| C-B | Nov-18 | 4.00% | Nov-19 | 1,000,000 |
| C-C | Dec-18 | 4.00% | Nov-19 | 5,000,000 |
| C-H | Jan-19 | 4.00% | Jan-20 | 632,000 |
| C-I | Feb-19 | 4.00% | Feb-20 | 1,784,000 |
| | | | | 59,409,000 |

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

| | December 2019 | June 2019 |
|---|---|---|
| Balance at the beginning of the period | 59,409,000 | 20,658,000 |
| Proceeds from acquisition of subsidiary | - | 80,641,847 |
| Proceeds from issuances | 22,000,000 | 58,115,119 |
| Redemptions | (49,459,000) | (100,005,966) |
| Balance at the end of the period | 31,950,000 | 59,409,000 |

## 18. Corporate bonds

| Type | Interest rate | Maturity | December 2019 | June 2019 |
|---|---|---|---|---|
| A Series - October 2014 Issuance | 5.13% | Oct-19 | - | 305,295,187 |
| A Series - October 2016 Issuance | 4.50% | Oct-21 | 687,615,956 | 683,525,138 |
| B Series - August 2015 Issuance | 4.75% | Aug-19 | - | 34,899,293 |
| C Series - August 2015 Issuance | 5.13% | Aug-20 | 34,918,370 | 34,859,071 |
| A Series - August 2018 Issuance | 5.00% | Aug-21 | 29,651,180 | 29,552,856 |
| B Series - August 2018 Issuance | 5.25% | Aug-22 | 24,501,335 | 24,446,672 |
| C Series - August 2018 Issuance | 5.50% | Aug-23 | 34,525,939 | 34,468,877 |
| A Series - April 2019 Issuance | 5.25% | Ap-29 | 399,070,556 | 295,214,304 |
| | | | 1,210,283,336 | 1,442,261,398 |

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

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

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

**August 2015 Issuance** – The bond issuance is guaranteed through a Guarantee Trust with the Fiduciary Agent in whose favor Mortgage Loans with a total value that must cover at least 120% of the Unpaid Capital Balance of Issued and Outstanding Bonds will be transferred. Interest is payable quarterly and the principal of the bonds at maturity.

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

**April 2019 Issuance** – The bonds of this issuance constitute direct, unconditional and unsecure obligations and not guaranteed. The coupon is paid semi-annually at a fixed rate and changes to a variable rate of Libor 3 months plus spread 3.30% in the last year of issuance.

The Bank arranged interest rate and exchange rate swaps on bonds, which qualify as fair value hedge. As of December 31, 2019, the net fair value of the hedged instrument attributable to the hedged risk decreased by B/.4,891,001 (June 2019: B/.8,105,718).

As of December 31, 2019, there are corporate bonds that maintain loan guarantees in trust for a total of B/.201,379,860.

## 19. Subordinated bonds

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

| Type | Interest rate | Maturity | December 2019 | June 2019 |
|---|---|---|---|---|
| A Series - August 2010 Issuance | 6.75% | Aug-70 | 554,000 | 554,000 |
| B Series - November 2010 Issuance | 6.75% | Aug-70 | 3,036,222 | 3,034,933 |
| C Series - December 2010 Issuance | 6.75% | Aug-70 | 3,420,102 | 3,418,647 |
| D Series - May 2011 Issuance | 6.75% | Aug-70 | 270,000 | 270,000 |
| E Series - October 2014 Issuance | 6.75% | Aug-70 | 615,000 | 615,000 |
| | | | 7,895,324 | 7,892,580 |

## 20. Perpetual bonds

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

| Type | Interest rate | December 2019 | June 2019 |
|---|---|---|---|
| A Series - May 2016 Issuance | 6.75% | 23,847,496 | 23,828,043 |
| B Series - July 2016 Issuance | 6.75% | 90,372,956 | 90,839,484 |
| C Series - May 2018 Issuance | 6.75% | 5,490,000 | 3,592,000 |
| D Series - May 2019 Issuance | 6.75% | 10,189,645 | 9,400,183 |
| | | 129,900,097 | 127,659,710 |

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

| | December 2019 | June 2019 |
|---|---|---|
| Balance at the beginning of the period | 1,577,813,688 | 1,416,923,553 |
| Proceeds from acquisition of subsidiary | - | 149,063,524 |
| Proceeds from issuances | 102,685,000 | 322,965,552 |
| Redemptions | (341,844,000) | (340,932,184) |
| Valuation | 3,214,717 | 30,605,615 |
| Premium, discounts | 6,209,352 | (812,372) |
| Balance at the end of the period | 1,348,078,757 | 1,577,813,688 |

## 21. Reserves for insurance operations

**Unearned premiums**

| | December 2019 | June 2019 |
|---|---|---|
| Balance at the beginning of period | 7,736,732 | 6,210,542 |
| Issued premiums | 17,542,207 | 30,265,500 |
| Earned premiums | (8,714,526) | (14,153,715) |
| Balance at the end of the period | 16,564,413 | 22,322,327 |
| | | |
| Participation of reinsurers | | |
| Premiums assigned | (7,875,508) | (14,585,595) |
| Unearned premiums | 2,903,180 | 2,974,915 |
| Unearned premiums, net | 11,592,085 | 10,711,647 |
| | | |
| **Claims pending settlement, estimates** | | |
| | | |
| Balance at the beginning of the period | 4,368,926 | 4,954,175 |
| Claims incurred | 6,168,992 | 12,978,432 |
| Claims paid | (6,638,653) | (12,948,317) |
| Balance at the end of the period | 3,899,265 | 4,984,290 |
| | | |
| Participation of reinsurers | - | (615,364) |
| Claims pending settlement, net estimates | 3,899,265 | 4,368,926 |
| | | |
| | 15,491,350 | 15,080,573 |

## 22. Other liabilities

| | December 2019 | June 2019 |
|---|---|---|
| Accrued interest payable | 51,675,819 | 51,532,280 |
| Other accounts payable | 32,264,006 | 28,811,393 |
| Cashiers´ and certified checks | 21,444,845 | 31,329,318 |
| Reserve for insurance operations | 15,491,350 | 15,080,573 |
| Employee benefits and other labor liabilities | 14,670,376 | 16,444,640 |
| Factoring guarantee deposits (b) | 8,485,271 | 8,120,750 |
| Other reserves | 7,107,412 | 8,025,043 |
| Hedge derivative (a) | 4,891,001 | 8,105,718 |
| Legal and other deposits | 2,881,596 | 6,030,790 |
| Accounts payable - Insurance | 2,690,087 | 2,404,254 |
| Special Interest Offsetting Fund (FECI) payable | 2,027,549 | 1,911,600 |
| Pending acceptances | 277,525 | - |
| Income tax payable | 86,963 | 34,639 |
| Others | 9,894,192 | 7,492,780 |
| | 173,887,992 | 185,323,778 |

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 Bank's condensed consolidated statement of financial position, the Bank has entered into interest rate swap contracts on corporate bonds for B/.550,000,000, that allow for the conversion of fixed interest rates to floating interest rates during each payment period.

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

| | December 2019 Remaining maturity of par value | | |
|---|---|---|---|
| **Accounting method** | **More than 1 year** | **Less than 1 year** | **Total** |
| Fair value | 550,000,000 | - | 550,000,000 |
| Total | 550,000,000 | - | 550,000,000 |

| | June 2019 Remaining maturity of par value | | |
|---|---|---|---|
| **Accounting method** | **More than 1 year** | **Less than 1 year** | **Total** |
| Fair value | 550,000,000 | 306,344,000 | 856,344,000 |
| Total | 550,000,000 | 306,344,000 | 856,344,000 |

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

| | December 2019 | | June 2019 | |
|---|---|---|---|---|
| **Type** | **Par value** | **Fair value** | **Par value** | **Fair value** |
| Fair value hedge derivatives (for financing) | 550,000,000 | (4,891,001) | 856,344,000 | (8,105,718) |
| Total | 550,000,000 | (4,891,001) | 856,344,000 | (8,105,718) |

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

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

b) 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 balance of the factoring guarantee deposit of the related transaction.

## 23. Common shares

As of December 31, 2019, the authorized capital of Global Bank Corporation consists of 2,000,000 common shares with no nominal value, of which 236,600 shares are issued and outstanding in the amount of B/.270,202,657 (June 2019: B/.270,202,657).

As of December 31, 2019, a total of B/.19,350,030 (December 2018: B/.13,919,629) was paid as dividends on common shares.

## 24. Interest and commission income and expenses

| | December 2019 | December 2018 |
|---|---|---|
| Interest earned on: | | |
| Loans | 217,263,461 | 173,518,334 |
| Deposits | 4,168,815 | 2,963,618 |
| Investments | 19,244,645 | 18,718,731 |
| | 240,676,921 | 195,200,683 |
| Interest expenses on: | | |
| Deposits | (87,808,045) | (62,787,177) |
| Obligations with financial institutions and repurchase agreements | (19,711,343) | (14,889,971) |
| Marketable securities and bonds | (45,885,782) | (45,583,356) |
| | (153,405,170) | (123,260,504) |
| Net interest income | 87,271,751 | 71,940,179 |
| Commissions earned on: | | |
| Loans | 16,085,983 | 12,354,052 |
| Letters of credit | 1,952,993 | 1,619,690 |
| Savings accounts and debit cards | 3,152,396 | 2,907,789 |
| Fiduciary and management services | 5,148,698 | 4,790,998 |
| Others | 6,352,555 | 6,405,358 |
| | 32,692,625 | 28,077,887 |
| Commission expenses | (8,019,785) | (6,684,789) |
| Net commission income | 24,672,840 | 21,393,098 |
| Net interest and commission income | 111,944,591 | 93,333,277 |

## 25. Other income, net

| | December 2019 | December 2018 |
|---|---|---|
| Net gain on sale of securities | 7,265,144 | 123,089 |
| Insurance premiums, net | 6,759,334 | 5,004,720 |
| Other income (expenses) | 2,791,875 | (776,836) |
| Net gain on instruments at fair value through profit or loss | 145,147 | 131,319 |
| Fiduciary and brokerage services, net | 139,742 | 51,310 |
| Net loss on financial instruments | (4,190,625) | (1,275,491) |
| | 12,910,617 | 3,258,111 |

## 26. Other expenses

| | December 2019 | December 2018 |
|---|---|---|
| Other operating expenses | 4,130,886 | 4,109,333 |
| Other general expenses | 3,065,265 | 3,516,438 |
| Reserve for redemption of miles | 1,728,048 | 1,000,694 |
| Communications and correspondance | 1,068,764 | 926,062 |
| Surveillance | 1,064,251 | 994,653 |
| Public services | 933,689 | 902,183 |
| Supplies and stationery | 421,113 | 414,100 |
| Insurance | 74,259 | 98,122 |
| | 12,486,275 | 11,961,585 |

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

As of December 31, 2019, key executive officers held stock options over 71,672 common shares of the Parent Bank (G.B. Group Corporation) (June 2019: 91,232), of which 33,016 shares may be exercised in 2020; 20,099 may be exercised in 2021 and 18,557 may be exercised in 2022, with an average strike price of B/.39.89 as of December 31, 2019 (June 2019: B/.40.44). The Bank recognized income for B/.81,420 (December 2018: B/.55,740) in the condensed consolidated statement of profit or loss under the line item salaries and other personnel expenses and the corresponding entry in equity, which reflects the contribution of capital it will receive from its Parent Bank.

## 28. Commitments and contingencies

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

| | December 2019 | June 2019 |
|---|---|---|
| Letters of credit | 142,940,526 | 103,962,439 |
| Endorsements and guarantees | 499,741,753 | 480,973,681 |
| Promissory notes | 241,671,593 | 291,308,678 |
| Unused credit lines | 455,817,586 | 510,768,024 |
| Total | 1,340,171,458 | 1,387,012,822 |

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 condensed 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.

## 29. Management of trust contracts and investment portfolio

As of December 31, 2019, the Bank held trust contracts at the client's risk that amounted to B/.2,861,710,417 (June 2019: B/.3,100,816,513).

| | December 2019 | June 2019 |
|---|---|---|
| Guarantee Trust | 2,706,901,204 | 2,935,977,206 |
| Investment Trust | 101,163,733 | 103,442,637 |
| Management Trust | 48,085,325 | 55,065,616 |
| Pension Trust | 3,055,500 | 3,170,374 |
| Assets - PLICA contract | 1,941,897 | 2,611,046 |
| Testamentary Trust | 562,758 | 549,634 |
| | 2,861,710,417 | 3,100,816,513 |

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

## 30. Management of pension and severance funds

| | December 2019 | June 2019 |
|---|---|---|
| Severance Fund | 278,505,800 | 273,382,734 |
| Pension Fund (under Law No. 10) | 238,700,687 | 220,857,932 |
| Citibank, N. A. | 3,881,808 | 4,238,540 |
| Pribanco and Conase Plus | 258,730 | 367,612 |
| Bipan Plus | 71,079 | 71,018 |
| Other assets under management | 20,306,127 | 18,534,363 |
| | 541,724,231 | 517,452,199 |

## 31. Income taxes

Income tax returns for the last three years of banks incorporated in the Republic of Panama are subject to examination by the tax authorities, including for the year ended June 30, 2019, according to current fiscal regulations.

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

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

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

The current income tax expense is broken down as follows:

| | December 2019 | December 2018 |
|---|---|---|
| Current income tax | 3,615,324 | 3,973,851 |
| Deferred income tax from temporary differences | (1,521,814) | (463,927) |
| Income tax | 2,093,510 | 3,509,924 |

The average effective rate of the current income tax is 9.00% (December 2018: 12.14%).

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

| | December 2019 | June 2019 |
|---|---|---|
| Balance at the beginning of the year/period | 25,878,425 | 11,517,322 |
| Effect of acquisition of subsidiary | - | 2,680,740 |
| Effect of IFRS adoption | 108,019 | 9,089,645 |
| Other charges | (227,889) | - |
| Credit to profit or loss during the period | 1,521,814 | 2,590,718 |
| Balance at the end of the period | 27,280,369 | 25,878,425 |

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

A reconciliation of income tax is shown below:

| | December 2019 | December 2018 |
|---|---|---|
| Profit before income tax | 36,030,221 | 30,754,241 |
| Less: non-taxable income | (27,067,922) | (36,776,538) |
| Plus: non-deductible expenses | 4,440,898 | 19,915,278 |
| Plus: tax loss in subsidiaries | 1,052,573 | 1,984,480 |
| Taxable base | 14,455,770 | 15,877,461 |
| Income tax calculated at 25% | 3,613,943 | 3,969,365 |
| Remittance income tax | 1,381 | 4,486 |
| Current income tax expense | 3,615,324 | 3,973,851 |

The deferred income tax asset is broken down as follows:

| | December 2019 | June 2019 |
|---|---|---|
| Deferred income tax asset: | | |
| Provision for expected losses | 31,275,239 | 29,753,425 |
| Other provision | (119,870) | - |
| Deferred taxes from acquired intangible asset - core deposit | (3,875,000) | (3,875,000) |
| Deferred income tax asset | 27,280,369 | 25,878,425 |

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

| **December 2019** | | **Charged to Profit or Loss** | **IFRS adoption** | **Proceed from the acquisition** | |
|---|---|---|---|---|---|
| Deferred income tax asset: | | | | | |
| Provision for expected losses | 29,753,425 | 1,521,814 | - | - | 31,275,239 |
| Other provision | - | - | 108,019 | (227,889) | (119,870) |
| Acquired intangible - core deposit | (3,875,000) | - | - | - | (3,875,000) |
| Deferred income tax asset | 25,878,425 | 1,521,814 | 108,019 | (227,889) | 27,280,369 |

| **June 2019** | | **Charged to Profit or Loss** | **IFRS adoption** | **Proceed from the acquisition** | |
|---|---|---|---|---|---|
| Deferred income tax asset: | | | | | |
| Provision for expected losses | 11,517,322 | 2,590,718 | 9,089,645 | 6,555,740 | 29,753,425 |
| Acquired intangible - core deposit | - | - | - | (3,875,000) | (3,875,000) |
| Deferred income tax asset | 11,517,322 | 2,590,718 | 9,089,645 | 2,680,740 | 25,878,425 |

Transfer pricing:

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

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

## 32. Segment information

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

| | December 2019 | | | |
|---|---|---|---|---|
| | **Banking and financial activities** | **Insurance** | **Pension and severance funds** | **Total consolidated** |
| Interest and commission income | 268,350,285 | 769,481 | 4,249,780 | 273,369,546 |
| Interest expenses and provisions | 178,828,766 | 168,333 | 568 | 178,997,667 |
| Other income, net | 5,994,317 | 6,759,334 | 156,966 | 12,910,617 |
| Other expenses | 54,993,561 | 1,818,208 | 1,464,098 | 58,275,867 |
| Depreciation and amortization expense | 8,769,871 | 8,535 | 57,951 | 8,836,357 |
| Profit before income tax | 31,752,404 | 5,533,739 | 2,884,129 | 40,170,272 |
| Income tax | 203,216 | 1,260,999 | 629,295 | 2,093,510 |
| Net profit | 31,549,188 | 4,272,740 | 2,254,834 | 38,076,762 |
| Total assets | 8,516,580,996 | 53,652,553 | 23,433,291 | 8,593,666,840 |
| Total liabilities | 7,761,951,877 | 29,108,694 | 751,099 | 7,791,811,670 |

| | December 2018 | | | |
|---|---|---|---|---|
| | **Banking and financial activities** | **Insurance** | **Pension and severance funds** | **Total consolidated** |
| Interest and commission income | 218,464,701 | 787,403 | 4,026,466 | 223,278,570 |
| Interest expenses and provisions | 135,408,119 | 12,347 | 311 | 135,420,777 |
| Other income, net | (1,897,400) | 5,004,720 | 150,791 | 3,258,111 |
| Other expenses | 49,198,874 | 1,577,622 | 1,444,151 | 52,220,647 |
| Depreciation and amortization expense | 6,087,065 | 11,503 | 58,626 | 6,157,194 |
| Profit before income tax | 25,873,243 | 4,190,651 | 2,674,169 | 32,738,063 |
| Income tax | 2,001,328 | 926,158 | 582,438 | 3,509,924 |
| Net profit | 23,871,915 | 3,264,493 | 2,091,731 | 29,228,139 |
| | **June 2019** | | | |
| Total assets | 8,351,151,657 | 47,494,910 | 21,263,094 | 8,419,909,661 |
| Total liabilities | 7,612,481,035 | 27,707,057 | 701,740 | 7,640,889,832 |

## 33. Bank´s subsidiaries

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

| Companies | Main economic activity | Date of incorporation | Begnning of operations | Country of incorporation | Percentage of ownership |
|---|---|---|---|---|---|
| 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% |
| 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% |
| Banvivienda Assets | Asset management | May-13 | 2013 | Grand Cayman Island | 100% |
| Banvivienda Leasing & Factoring | Financial leasing | Oct-06 | 2007 | Panama | 100% |

## 34. Regulatory aspects

The following is a breakdown of the regulatory reserves:

| | December 2019 | June 2019 |
|---|---|---|
| Banking reserves | | |
| Dynamic reserve | 87,863,198 | 87,863,198 |
| Reserve for foreclosed assets | 8,103,565 | 8,054,532 |
| Equity reserve - uncollectible loans | 992,845 | - |
| Insurance reserve | | |
| Technical reserve | 2,999,370 | 2,516,034 |
| Legal reserve | 5,749,193 | 5,749,193 |
| | 105,708,171 | 104,182,957 |

### *Agreement 4-2013*

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

**December 2019**

| | Normal | Special mention | Subnormal | Doubtful | Uncollectible | Total |
|---|---|---|---|---|---|---|
| Corporate loans | 3,025,361,862 | 166,555,155 | 130,519,305 | 15,018,464 | 50,733,638 | 3,388,188,424 |
| Consumer loans | 2,746,564,144 | 112,338,900 | 40,066,455 | 18,592,243 | 45,448,048 | 2,963,009,790 |
| Other loans | 143,504,053 | 828 | - | - | - | 143,504,881 |
| Total | 5,915,430,059 | 278,894,883 | 170,585,760 | 33,610,707 | 96,181,686 | 6,494,703,095 |
| Specific reserve | - | 11,911,813 | 22,732,214 | 12,944,325 | 40,348,280 | 87,936,632 |

**June 2019**

| | Normal | Special mention | Subnormal | Doubtful | Uncollectible | Total |
|---|---|---|---|---|---|---|
| Corporate loans | 3,027,974,396 | 208,117,272 | 87,159,365 | 17,654,894 | 52,844,818 | 3,393,750,745 |
| Consumer loans | 2,708,746,791 | 114,208,902 | 17,704,443 | 22,406,863 | 34,922,915 | 2,897,989,914 |
| Other loans | 110,044,705 | - | - | - | - | 110,044,705 |
| Total | 5,846,765,892 | 322,326,174 | 104,863,808 | 40,061,757 | 87,767,733 | 6,401,785,364 |
| Specific reserve | - | 15,035,081 | 14,635,836 | 10,182,051 | 39,328,804 | 79,181,772 |

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

**December 2019**

| | Current | Delinquent | Overdue | Total |
|---|---|---|---|---|
| Corporate | 3,300,125,940 | 9,684,129 | 78,378,355 | 3,388,188,424 |
| Consumer | 2,805,218,611 | 69,290,960 | 88,500,219 | 2,963,009,790 |
| Other | 143,504,053 | 828 | - | 143,504,881 |
| Total | 6,248,848,604 | 78,975,917 | 166,878,574 | 6,494,703,095 |

**June 2019**

| | Current | Delinquent | Overdue | Total |
|---|---|---|---|---|
| Corporate | 3,326,329,764 | 3,375,970 | 64,045,011 | 3,393,750,745 |
| Consumer | 2,745,949,458 | 86,915,412 | 65,125,044 | 2,897,989,914 |
| Other | 110,044,705 | - | - | 110,044,705 |
| Total | 6,182,323,927 | 90,291,382 | 129,170,055 | 6,401,785,364 |

As of December 31, 2019, loans that do not accrue interest represented an amount of B/.117,608,162 (June 2019: B/.117,033,002).

### *Dynamic reserve*

***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.

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

| | **December 2019** | **June 2019** |
|---|---|---|
| **Component 1** | | |
| Risk-weighted assets (credit facilities - normal category) | 4,816,062,238 | 4,816,062,238 |
| By Alpha coefficient (1.50%) | 72,240,934 | 72,240,934 |
| **Component 2** | | |
| Quarterly variation by Beta coefficient (5.00%) | 715,161 | 715,161 |
| **Component 3** | | |
| Less: quarterly variation of specific reserves | (14,907,103) | (14,907,103) |
| **Total dynamic reserve** | 87,863,198 | 87,863,198 |
| **Restrictions:** | | |
| Total dynamic reserve: | | |
| Minimum (1.25% of risk-weighted assets - normal category) | 60,200,778 | 60,200,778 |
| Maximum (2.50% of risk-weighted assets - normal category) | 120,401,556 | 120,401,556 |

According to Agreement 4-2013, the restriction of the dynamic reserve establish that the amount cannot be less that 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.

### *Off-balance sheet operations*

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

| December 2019 | Normal | Special mention | Subnormal | Doubtful | Uncollectible | Total |
|---|---|---|---|---|---|---|
| Letters of credit | 142,940,526 | - | - | - | - | 142,940,526 |
| Endorsements and guarantees | 499,741,753 | - | - | - | - | 499,741,753 |
| Promissory notes | 241,671,593 | - | - | - | - | 241,671,593 |
| Unused credit lines | 455,817,586 | - | - | - | - | 455,817,586 |
| Total | 1,340,171,458 | - | - | - | - | 1,340,171,458 |

| June 2019 | Normal | Special mention | Subnormal | Doubtful | Uncollectible | Total |
|---|---|---|---|---|---|---|
| Letters of credit | 103,962,439 | - | - | - | - | 103,962,439 |
| Endorsements and guarantees | 480,973,681 | - | - | - | - | 480,973,681 |
| Promissory notes | 291,308,678 | - | - | - | - | 291,308,678 |
| Unused credit lines | 510,768,024 | - | - | - | - | 510,768,024 |
| Total | 1,387,012,822 | - | - | - | - | 1,387,012,822 |

Letters of credit, guarantee 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 Bank’s memorandum accounts.

### *Foreclosed assets*

As of December 31, 2019, the regulatory reserve on foreclosed assets amounts to B/.8,103,565 (June 2019: B/.8,054,532) based on the reserve of Agreement 3-2009 of the Superintendency of Banks of Panama.

### *Premiums and notes receivable*

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

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

b) The suspension of coverage shall remain until the contractor makes the overdue payments, enabling the reestablishment of the policy's coverage from the moment of the premium payments for said period are made, or until the policy has been cancelled in accordance with the 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 Bank. 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 Bank; otherwise, the last address on the insurance Bank'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 | |
|---|---|---|---|---|
| | December 2019 | June 2019 | December 2019 | June 2019 |
| Balance at the beginning of the period | 1,258,018 | 866,020 | 1,258,018 | 866,020 |
| Additions | 241,667 | 391,997 | 241,667 | 391,997 |
| Balance at the end of the period | 1,499,685 | 1,258,017 | 1,499,685 | 1,258,017 |

***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:

| | December 2019 | June 2019 |
|---|---|---|
| Balance at the beginning of the period | 5,749,193 | 5,358,702 |
| Additions | - | 390,491 |
| Balance at the end of the period | 5,749,193 | 5,749,193 |

**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 of December 31, 2019, the liquidity ratio percentage reported to the regulatory body, under the parameters of Agreement 4-2008, was 51.46% (June 2019: 56.48%) (See Note 4.3).

*Capital adequacy*

The Law demands that Banks with a general license must have a minimum paid-in capital or assigned capital of ten million balboas (B/.10,000,000) and equity funds of no less than 8% of their weighted assets, including off-balance sheet operations. As of December 31, 2019, the Bank holds condensed consolidated equity funds of approximately 13.72% (June 2019: 13.96%) of its risk-weighted assets, in accordance with Agreement 1-2015 and Agreement 3-2016 and the new agreements, Agreement 11-2018 and Agreement 2-2018. (See Note 4.5).

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.

## 35. Approval of the consolidated financial statements

The condensed consolidated financial statements of Global Bank Corporation and Subsidiaries for the period ended December 31, 2019 were authorized by General Management and approved by the Board of Directors for their issuance on February 14, 2020.

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