Global Bank Corporation and Subsidiaries

Consolidated financial statements for the period ended September 30, 2019

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

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Consolidated Financial Statements
September 30, 2019

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Global Bank Corporation and Subsidiaries

Consolidated statement of financial position
For the period ended September 30, 2019
(In balboas)

	Notes	September 2019	June 2019
Assets			
Cash and bank deposits	7,15	569,799,806	607,655,790
Securities purchase under resale agreements	6,8	5,061,898	5,061,874
Investments in securities	6,9,14	1,006,822,383	851,727,771
Loans	6,10	6,307,131,075	6,264,500,855
Property, furniture, equipment and improvements	11	200,430,783	200,120,952
Other assets	6,12,30	520,702,576	490,842,419
Total assets		8,609,948,521	8,419,909,661
Liabilities and equity			
Liabilities			
Customer deposits	6, 13	4,943,954,747	4,831,380,464
Bank deposits		46,756,653	66,350,205
Obligations with financial institutions	9,14	931,352,870	920,612,697
Marketable securities	15	31,913,000	59,409,000
Corporate bonds	16	1,515,783,496	1,442,261,398
Subordinated bonds	17	7,893,952	7,892,580
Perpetual bonds	18	128,281,679	127,659,710
Other liabilities	6,19,20	217,043,572	185,323,778
Total liabilities		7,822,979,969	7,640,889,832
Equity			
Common shares	21	270,202,657	270,202,657
Excess paid-in capital	25	2,636,467	2,514,337
Capital reserve		32,324,680	32,324,680
Regulatory reserve	34	104,847,571	104,182,957
Fair value reserve		6,110,120	6,099,208
Retained earnings		370,847,057	363,695,990
Total equity		786,968,552	779,019,829
Total liabilities and equity		8,609,948,521	8,419,909,661

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

Global Bank Corporation and Subsidiaries

Consolidated statement of profit or loss
For the period ended September 30, 2019
(In balboas)

	Notes	September 2019	September 2018
Interest income	6	120,302,129	91,831,201
Interest expense	6	(77,250,753)	(58,306,238)
Net interest income	22	43,051,376	33,524,963
Commission income		15,489,127	12,459,460
Commission expense		(3,946,344)	(3,215,663)
Net commission income	22	11,542,783	9,243,797
Net interest and commission income	22	54,594,159	42,768,760
Other income	23	5,264,337	2,188,353
		59,858,496	44,957,113
Other expenses			
Provision for loan impairment	10	4,121,313	2,185,466
Country risk provision		(10,005)	-
Reversal of reserve for investment impairment		(425,890)	369,529
Salaries and other compensations	6	15,881,915	10,959,936
Professional fees		1,680,739	2,018,369
Depreciation and amortization	11,12	4,101,104	2,972,707
Marketing and Advertising		418,769	629,970
Maintenance and repairs		2,760,913	2,769,155
Leases	26	1,182,128	1,221,918
Other taxes		1,618,059	1,309,498
Other expenses	24	5,976,889	6,071,598
		37,305,934	30,508,146
Profit before income tax		22,552,562	14,448,967
Income Tax:			
Current		2,029,731	1,664,578
Deferred		328,165	339,535
Income tax	30	2,357,896	2,004,113
Profit for the period		20,194,666	12,444,854

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

Global Bank Corporation and Subsidiaries

Consolidated statement of profit or loss and other comprehensive income
For the period ended September 30, 2019
(In balboas)

	September 2019	September 2018
Profit for the period	20,194,666	12,444,854
Other comprehensive income:		
Items that can later be reclassified to profit or loss:		
Net amount transferred to profit or loss	(1,516,702)	(76,035)
Reserve for investments	(150,887)	13,830
Net changes in the valuation of investments at fair value through other comprehensive income	1,678,501	(1,253,341)
Other comprehensive income for the period	10,912	(1,315,546)
Total other comprehensive income for the period	20,205,578	11,129,308

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

Global Bank Corporation and Subsidiaries

Consolidated statement of changes in equity
For the period ended September 30, 2019
(In balboas)

	Notes	Total shareholders' equity	Common shares	Excess paid-in capital	Capiral reserves	Regulatory reserve	Fair value reserves	Retained earnings
Balance at June 30, 2018		611,527,477	98,202,657	2,325,817	32,324,680	90,582,283	1,265,714	386,826,326
Profit for the period		12,444,854	-	-	-	-	-	12,444,854
Reserve for investments		13,830	-	-	-	-	13,830	-
Net changes in the valuation of investments at fair value through other comprehensive income		(1,329,376)	-	-	-	-	(1,329,376)	-
Comprehensive income for the period		11,129,308	-	-	-	-	(1,315,546)	12,444,854
Excess paid-in capital - share option plan for employees		(177,870)	-	(177,870)	-	-	-	-
Dividends paid - common shares	21	(9,279,752)	-	-	-	-	-	(9,279,752)
Complementary tax		(870,930)	-	-	-	-	-	(870,930)
Regulatory reserve	34	-	-	-	-	423,079	-	(423,079)
Effects of IFRS adoption		(28,476,538)	-	-	-	-	-	(28,476,538)
Balance at September 30, 2018		583,851,695	98,202,657	2,147,947	32,324,680	91,005,362	(49,832)	360,220,881
Balance at 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		20,194,666	-	-	-	-	-	20,194,666
Reversal of reserve for investments		(150,887)	-	-	-	-	(150,887)	-
Net changes in the valuation of investments at fair value through other comprehensive income		161,799	-	-	-	-	161,799	-
Comprehensive income for the period		20,205,578	-	-	-	-	10,912	20,194,666
Excess paid-in capital - share option plan for employees	25	122,130	-	122,130	-	-	-	-
Dividends paid - common shares	21	(12,129,479)	-	-	-	-	-	(12,129,479)
Regulatory reserve	34	-	-	-	-	664,614	-	(664,614)
Complementary tax		(249,506)	-	-	-	-	-	(249,506)
Balance at September 30, 2019		786,968,552	270,202,657	2,636,467	32,324,680	104,847,571	6,110,120	370,847,057

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

Global Bank Corporation and Subsidiaries

Consolidated statement of cash flows
For the period ended September 30, 2019
(In balboas)

	Notes	September 2019	June 2019
Cash flows from operating activities			
Profit for the period		20,194,666	45,988,111
Adjustments for:			
Depreciation and amortization	11,12	4,101,104	17,213,678
Gain on sale of property, furniture and equipment		(3,193)	(10,066)
Disposal of fixed asset		-	1,908,380
Gain on sale of securities at fair value through other comprehensive income		(1,516,702)	(834,108)
Net gain on instruments at fair value through profit or loss		(80,588)	(12,226)
Net loss on derivative financial instruments	23	1,606,838	1,624,130
Reserve for loan losses, net		4,121,313	29,422,096
Reserve for investments, net		(425,890)	(171,691)
Income tax	30	2,357,896	402,827
Net interest and commission income	22	(120,302,129)	(432,643,589)
Interest expenses	22	77,250,753	276,459,794
Share option plan for employees	25	122,130	188,520
Effect of IFRS adoption		-	(28,469,713)
Deferred tax		328,165	(12,211,962)
		(12,245,637)	(101,145,819)
Changes in:			
Deposits with maturities greater than 90 days		(1,705,782)	49,286,469
Securities purchases under resale agreements		(24)	(2,034,822)
Loans		(46,751,533)	8,694,245
Other assets		(7,738,547)	(29,610,473)
Customer deposits		112,574,283	38,537,209
Bank deposits		(19,593,552)	(52,253,864)
Other liabilities		19,368,746	(20,957,322)
Cash (used in) generated by operations		43,907,954	(109,484,377)
Income tax paid		(8,895,080)	(4,919,488)
Interest received		105,205,394	408,378,042
Interest paid		(58,707,162)	(272,492,905)
Net cash flows provided by operating activities		81,511,106	21,481,272
Cash flows from investment activities			
Purchase of securities at fair value through other comprehensive income		(284,525,695)	(386,117,091)
Sale of securities at fair value through other comprehensive income		102,951,635	388,886,673
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		(9,725,280)	(20,513,511)
Redemption of investments at amortized cost		27,788,187	42,791,733
Purchase of property, furniture and equipment		(4,025,100)	(23,505,338)
Proceeds from sale of property, furniture and equipment		3,193	-
Acquisition value paid	31	-	131,133,563
Complementary tax		(249,506)	(360,685)
Net cash flows provided by (used in) investment activities		(157,782,566)	133,415,344
Cash flows from financing activities			
Payments made for repurchase agreement transactions		-	(81,243,859)
Obligations received from financial institutions	14	99,176,046	1,653,567,612
Obligations paid to financial institutions	14	(88,435,873)	(1,574,763,649)
Proceeds from marketable securities issuance	15	10,000,000	58,115,119
Payments for redemption of marketable securities	15	(37,496,000)	(100,005,966)
Proceeds from bond issuance	16,17,18	100,595,000	322,965,552
Redemption of bonds	16,17,18	(35,000,000)	(340,932,184)
Dividends paid - common shares	21	(12,129,479)	(27,576,380)
Proceeds from common share issuance		-	112,000,000
Net cash flows provided by (used in) financing activities		36,709,694	22,126,245
Net increase (decrease) in cash and cash equivalents		(39,561,766)	177,022,861
Cash and cash equivalents at the beginning of the year		559,978,798	382,955,937
Cash and cash equivalents at the end of the period	7	520,417,032	559,978,798

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

1. General information

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

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

The Bank is a wholly owned subsidiary of G.B. Group Corporation, 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 34.

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

2.1 Standards and interpretations adopted during the year

New standards, interpretations and amendments to accounting standards have been issued and adopted by the Bank. The main changes in these new standards are presented below:

2.1.1 IFRS 9 - Financial instruments

Determining the impact of the IFRS 9 adoption

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

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

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

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

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

Impairment of financial assets

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

2.1.2 IFRS 15 – Revenue from Contracts with Customers

On May, 2014, IFRS 15 was issued establishing a detailed comprehensive model to be used by entities in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption allowed.

The evaluation carried out by the Bank focused on the review of loyalty programs, commissions and other income, since those that come from financial instruments are outside the scope of this standard. The results of this review indicate that the application of IFRS 15 has no significant impact on the recognition or measurement of income mentioned as of September 30, 2019.

2.2 Standards and interpretations issued but not yet adopted

New standards, interpretations and amendments to accounting standards have been issued, and have not been adopted early by the Bank. The main changes in these new standards are presented below:

2.2.1 IFRS 16 - Leases

This standard replaces IAS 17 that regularized leasing operations. IFRS 16 eliminates the dual accounting model for lessees that distinguished between financial and operating lease contracts; instead a single model similar to the financial one is established. In the case of the lessor, the same current models (financial and operational) are maintained.

The Bank has not completed an initial evaluation of the possible impact of this standard on its consolidated financial statements; however, the detailed evaluation is in process. It should be noted that the initial impact will depend on future economic conditions, characteristics of the lease portfolio, renewal options and the extent to which the Bank chooses to use practical files and recognition exemptions.

With the adoption of this new standard, the Bank will recognize new assets and liabilities related to the operating leases it currently has mainly with branches and offices. This will change the nature of the expenses currently recorded in the statement of profit and loss related to the leases mentioned above; now, this rule will require recognizing a depreciation expense for the right-of-use assets and an interest expense related to the financial liabilities for leasing operations.

As of the date of the consolidated financial statements, the Administration is in the process of evaluating the impact of this modification.

3. Significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of presentation

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

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

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

3.3 Basis of consolidation

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

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

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

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

- The size of the Bank´s participation of voting rights relative to the size and dispersion of holding of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;

- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders´ meeting.

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

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

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

Changes in the Banks' ownership interests in existing subsidiaries

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

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

3.4 Foreign currency transactions

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

Functional currency and presentation

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

3.5 Segment reporting

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

3.6 Financial assets

3.6.1 Accounting policies

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

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

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

3.6.1.1 Classification

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

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

3.6.1.2 Evaluation of the business model

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

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

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

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

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

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

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

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

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

3.6.1.4 Financial assets at fair value through other comprehensive income (FVOCI)

These securities are made up of non-classified debt instruments such as securities at FVTPL or at amortized cost securities and are subject to the same approval criteria as the rest of the loan portfolio. These securities are accounted for at fair value if the following two conditions are met:

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

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

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

3.6.1.5 Financial assets at amortized cost

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

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

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

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

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

3.6.1.7 Reclassification

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

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

3.6.1.8 Write-offs

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

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

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

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

3.6.2 Impairment of financial statements

***3.6.2*.1** Accounting policies

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

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

Critical judgments are described in Note 5.

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

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

No impairment loss is recognized in equity investments.

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

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

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

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

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

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

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

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

***3.6.2*.2** Impaired financial assets

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

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

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

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

***3.6.2*.3** Definition of default

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

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

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

***3.6.2*.4** Significant increase in credit risk

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

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

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

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

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

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

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

***3.6.2*.5** Modified or renegotiated loans

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

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

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

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

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

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

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

***3.6.2*.6** Write-offs

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

***3.6.2*.7** Presentation of the provision for ECL in the consolidated statement of financial position

The ECL loss provision is presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying value of the assets;

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

***3.6.2.*8** Loans at amortized cost

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

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

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

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

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

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

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

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

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

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

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

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

3.7 Financial liabilities and issued equity instruments

Client deposits

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

Classification as debt or equity

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

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

Equity instruments

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

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

Liabilities from financial guarantee contracts

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

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

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

Financings

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

Securities sold under repurchase agreements

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

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

Other financial liabilities

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

Derecognition of financial liabilities

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

Dividends

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

3.8 Compensation of financial instruments

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

3.9 Interest income and expenses

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

3.10 Commission income

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

3.11 Securities purchased under resale agreements

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

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

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

3.12 Financial leases receivable

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

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

3.13 Operating leases

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

3.14 Property, plant, equipment and improvements

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

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

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

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

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

3.15 Foreclosed assets for sale

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

3.16 Goodwill and intangible assets

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

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

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

3.17 Impairment of non-financial assets other than goodwill

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

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

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

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

As of September 30, 2019, Management had not identified impairment loss of its non-financial assets.

3.18 Employee benefits

Severance fund

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

Retirement plan

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

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

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

3.19 Share-based payments

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

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

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

3.20 Income tax

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

Deferred tax

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

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

Complementary dividend tax

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

3.21 Insurance operations

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

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

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

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

3.22 Trust operations

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

3.23 Hedge derivatives

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

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

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

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

Fair value hedge

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

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

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

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

The fair values of derivatives used for hedging purposes are described in Note 20.

3.24 Cash equivalents

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

4. Financial risk management

4.1 Objectives of financial risk management

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

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

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

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

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

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

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

4.2 Credit and counterparty risk

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

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

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

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

Issuance of Credit Policies:

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

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

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

Establishment of Authorization Limits:

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

Exposure Limits:

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

Concentration Limits:

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

Counterparty Maximum Limits:

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

Review of Compliance Policies:

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

Review of guarantees:

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

Impairment and provisioning policies:

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

Credit quality analysis

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

	September 2019	June 2019
Bank deposits		
Grade 1	531,629,460	564,700,490
Loans		
Grade 1	5,660,375,665	5,665,095,828
Grade 2	412,819,434	377,269,925
Grade 3	118,052,691	123,457,752
Grade 4	101,663,993	106,791,803
Grade 5	148,194,115	129,170,056
Gross amount	6,441,105,898	6,401,785,364
Allowance for individual and collective impairment	(116,791,171)	(119,714,855)
Discounted unearned interest	(17,183,652)	(17,569,654)
Net carrying value	6,307,131,075	6,264,500,855
Renegotiated and restructured loans		
Gross amount	195,760,123	163,841,165
Impairment allowance	(13,947,153)	(14,291,281)
Carrying value	181,812,970	149,549,884
Delinquent but not impaired		
31 to 60 days	51,722,099	47,107,052
61 to 90 days	-	23,137
Sub-total	51,722,099	47,130,189
Allowance for loan impairment		
Individual	(54,283,005)	(52,432,529)
Collective	(62,508,166)	(67,282,326)
Total impairment allowance	(116,791,171)	(119,714,855)
Off-balance sheet transactions		
Grade 1		
Letter of credit	117,762,962	103,962,439
Endorsements and guarantees	485,267,368	480,973,681
Promissory notes	270,876,942	291,308,678
Unused credit lines	506,481,023	510,768,024
	1,380,388,295	1,387,012,822
Securities purchased under resale agreements - at amortized cost		
Grade 1	5,061,898	5,061,874
Securities available for sale		
Grade 1	686,621,418	503,970,377
Securities held to maturity		
Grade 1	19,862,173	29,781,585
Investment at fair value through other comprehensive income		
Grade 1	300,632,019	318,255,206

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.

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

	September 2019		
	Global Bank Corporation	Subsidiaries	Total
Current	6,015,411,610	183,464,739	6,198,876,349
from 31 to 90 days	94,035,434	-	94,035,434
More than 90 days (capital or interest)	123,823,264	-	123,823,264
More than 30 days overdue (maturity capital)	24,370,851	-	24,370,851
Total	6,257,641,159	183,464,739	6,441,105,898

	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 (capital or interest)	107,482,377	184,604	107,666,981
More than 30 days overdue (maturity capital)	21,503,074	-	21,503,074
Total	6,247,631,055	154,154,309	6,401,785,364

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

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

September 2019

	Stage 1	Stage 2	Stage 3	Total
Classification				
Grade 1	5,469,403,360	190,972,305	-	5,660,375,665
Grade 2	-	412,819,434	-	412,819,434
Grade 3	-	118,052,691	-	118,052,691
Grade 4	-	101,663,993	-	101,663,993
Grade 5	-	-	148,194,115	148,194,115
Gross amount	5,469,403,360	823,508,423	148,194,115	6,441,105,898
Reserve for expected losses	(15,378,316)	(47,129,850)	(54,283,005)	(116,791,171)
Net carrying value	5,454,025,044	776,378,573	93,911,110	6,324,314,727

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:

September 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 to 12-months (Stage 1)	2,640,730	(2,640,730)	-	-
Transferred to lifetime without impairment (Stage 2)	(1,055,003)	6,204,774	(5,149,771)	-
Transferred to lifetime with impairment (Stage 3)	(226,176)	(7,474,891)	7,701,067	-
Net effect of changes in the reserve for expected credit losses	(859,200)	3,135,620	7,649,733	9,926,153
New loans or purchase of new financial assets	161,592	-	-	161,592
Settled loans	(781,480)	(3,879,395)	(1,305,557)	(5,966,432)
Written-off loans	-	-	(8,202,787)	(8,202,787)
Recoveries	-	-	1,157,790	1,157,790
Balance at the end of the period	15,378,316	47,129,851	54,283,004	116,791,171

June 2019

	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year (IAS 39)				47,209,225
Reserve transferred to retained earnings				38,399,837
Balance at the beginning of the period (IFRS 9)	30,929,776	15,050,606	39,628,680	85,609,062
Changes due to financial instruments recognized as of June 30, 2018				
Transferred to 12-months (Stage 1)	14,065,844	(11,439,158)	(2,626,686)	-
Transferred to lifetime without impairment (Stage 2)	(21,838,404)	44,701,872	(22,863,468)	-
Transferred to lifetime with impairment (Stage 3)	(3,340,579)	(11,850,631)	15,191,210	-
Net effect of changes in the reserve for expected credit losses	(9,309,445)	15,766,686	37,934,399	44,391,640
New loans or purchase of new financial assets	11,127,601	4,288,241	10,892,544	26,308,386
Settled 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:

September 2019	With investment rating	Special monitoring	Without international rating	Total
Investments at fair value through other comprehensive income	315,471,901	101,586,188	269,563,329	686,621,418
Investments at fair value through profit or loss	9,987,596	-	9,874,577	19,862,173
Investments at amortized cost	219,488,246	81,143,773	-	300,632,019
Securities purchased under resale agreements	-	-	5,061,898	5,061,898
Total	544,947,743	182,729,961	284,499,804	1,012,177,508
Expected loss - investment at amortized cost	91,252	201,975	-	293,227
Expected loss - investments at FVTOCI	91,272	940,556	1,198,407	2,230,235

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

Reserves for expected losses on investments at fair value through other comprehensive income are not recognized in the consolidated statement of financial position as they are measured at fair value.

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

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

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

September 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 the reserve for expected credit losses	(436,483)	-	-	(436,483)
New instruments acquired	307,760	-	-	307,760
Paid-off investments	(22,164)	-	-	(22,164)
Balance at the end of the period	2,230,235	-	-	2,230,235

June 2019

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at the beginning of the year (IFRS 9)	2,484,466	-	-	2,484,466
Net effect of changes in the reserve for expected credit losses	64,688	-	-	64,688
New instruments acquired	319,652	-	-	319,652
Paid-off investments	(487,684)	-	-	(487,684)
Balance at the end of the year	2,381,122	-	-	2,381,122

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

September 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 the reserve for expected credit losses	12,475	-	-	12,475
New instruments acquired	19,841	-	-	19,841
Paid-off investments	(18,486)	-	-	(18,486)
Balance at the end of the period	293,227	-	-	293,227

June 2019

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at the beginning of the year (IFRS 9)	185,390	-	-	185,390
Net effect of changes in the reserve for expected credit losses	(1,629)	-	-	(1,629)
New instruments acquired	264,236	-	-	264,236
Paid-off investments	(168,600)	-	-	(168,600)
Balance at the end of the year	279,397	-	-	279,397

4.2.3.3 Guarantees to reduce credit risk and its financial impact

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

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

September 2019	Consumer				Corporate		
	Personal	Credit cards	Vehicles	Mortgage	Commercial	Overdraft	Total loans
Loan balances	730,498,889	130,997,666	286,648,622	1,753,023,739	3,346,982,586	192,954,396	6,441,105,898
Guarantees	358,628,606	4,343,173	425,328,625	2,417,166,883	6,529,907,012	294,183,634	10,029,557,933
% of exposure subject to guarantee	49%	3%	148%	138%	195%	152%	156%

June 2019	Consumer				Corporate		
	Personal	Credit cards	Vehicles	Mortgage	Commercial	Overdraft	Total loans
Loan balances	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
% of exposure subject to guarantee	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 guarantees ("Loan-To-Value" – LTV). The LTV is calculated as a percentage of the gross amount of the loan in relation to the value of the guarantee. The gross amount of the loan excludes any impairment loss. The value of the guarantee, for mortgages is based on the original value of the guarantee at the date of disbursement.

	September 2019	June 2019
Residential mortgage loans:		
Less than 50%	109,019,537	107,471,116
51% - 70%	338,452,904	329,418,178
71% - 90%	862,569,842	849,903,592
More than 90%	442,981,456	447,733,160
Total	1,753,023,739	1,734,526,046

Time deposits placed in banks

As of September 30, 2019, the Bank held time deposits in Banks for B/.299,931,028 (June 2019: B/.418,971,436). Time deposits in banks are kept in domestic and foreign financial institutions. These institutions have domestic and/or international ratings, mostly with an international investment grade of at least BBB- by Fitch Ratings or Standard and Poors, or Baa3 by Moody's.

4.2.2.4 Concentration of credit risk

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

	September 2019		
	Deposits in banks	Loans	Investments
Concentration by sector:			
Corporate	470,448,745	3,431,247,714	-
Consumer	-	2,916,914,761	-
Government	61,180,715	-	290,176,968
Other sectors	-	92,943,423	722,000,540
	531,629,460	6,441,105,898	1,012,177,508
Geographical concentration:			
Panama	206,001,080	6,124,934,723	453,378,578
Latin America and Caribbean	55,078,408	282,259,479	329,802,127
Europe, Asia and Oceania	122,243,842	33,911,696	40,388,844
United States of America	148,306,130	-	188,607,959
	531,629,460	6,441,105,898	1,012,177,508

	June 2019		
	Deposits in banks	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
Geographical concentration:			
Panama	281,994,484	6,132,223,844	389,346,928
Latin America and 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

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

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

4.3 Liquidity or financing risk

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

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

Panamanian Banking Regulations require banks with a general license to keep at all times a minimum balance of liquid assets, as defined in Agreement 4-2008 of the Superintendency of Banks of Panama, of no less than 30% of their deposits. However, due to the severe liquidity policies for covering their operating liabilities, the liquidity of the Bank based on this standard as of September 30, 2019, was 61.46% (June 2019: 56.48%).

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

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

	September 2019	June 2019
	61.46%	**56.48%**
Average for the period	55.72%	50.18%
Maximum for the period	61.46%	56.48%
Minimum for the period	52.51%	41.34%

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

September 2019	Carrying value	Undiscounted cash flows	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Deposits	4,990,711,400	5,019,052,225	3,128,162,675	1,337,418,179	539,303,848	14,167,523
Obligations with financial institutions	931,352,870	984,969,319	452,338,537	460,500,821	49,092,655	23,037,306
Marketable securities	31,913,000	32,450,975	32,450,975	-	-	-
Corporate bonds	1,515,783,496	1,801,303,357	400,291,665	829,681,961	78,652,026	492,677,705
Subordinated bonds	7,893,952	35,544,392	543,698	1,082,940	1,084,425	32,833,329
Perpetual bonds	128,281,679	190,574,134	8,825,851	17,579,360	17,603,474	146,565,449
	7,605,936,397	8,063,894,402	4,022,613,401	2,646,263,261	685,736,428	709,281,312

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 allow the assessment of the nature and extent of liquidity risk.

4.4 Market risk

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

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

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

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

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

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

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

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

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

September 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	298,331,027	-	1,600,000	-	269,868,779	569,799,806
Securities purchased under resale agreement - at amortized cost	5,000,000	61,898	-	-	-	5,061,898
Investments at fair value through other comprehensive income	272,334,366	94,858,869	163,443,171	110,692,263	45,292,749	686,621,418
Investments at fair value throug profit or loss	9,026,117	-	-	961,479	9,874,577	19,862,173
Investments at amortized cost	-	-	74,546,499	226,085,520	-	300,632,019
Loans	4,924,043,184	37,304,124	169,256,641	1,310,501,949	-	6,441,105,898
Total financial assets	5,508,734,694	132,224,891	408,846,311	1,648,241,211	325,036,105	8,023,083,212
Financial liabilities:						
Client deposits	1,828,239,182	839,852,862	1,861,227,970	14,141,288	447,250,098	4,990,711,400
Obligations with financial institutions	921,751,000	9,601,870	-	-	-	931,352,870
Marketable securities	18,607,000	13,306,000	-	-	-	31,913,000
Corporate bonds	993,075,179	34,888,518	88,572,671	399,247,128	-	1,515,783,496
Subordinated bonds	-	-	-	7,893,952	-	7,893,952
Perpetual bonds	-	-	-	128,281,679	-	128,281,679
Total financial liabilities	3,761,672,361	897,649,250	1,949,800,641	549,564,047	447,250,098	7,605,936,397
Commitments and contingencies	-	-	-	-	1,380,388,295	1,380,388,295
Total interest rate sensitivity	1,747,062,333	(765,424,359)	(1,540,954,330)	1,098,677,164	(122,213,993)	417,146,815

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 agreement - at amortized cost	5,025,049	36,825	-	-	-	5,061,874
Investments at fair value through other comprehensive income	143,928,061	1,486,271	204,347,802	108,943,930	45,264,313	503,970,377
Investments at fair value throug 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	5,516,026,598	26,101,079	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	826,980,898	93,631,799	-	-	-	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	3,980,979,046	941,443,687	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	1,535,047,552	(915,342,608)	(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 for Management.

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

September 2019	**Increase 100bps**	**Decrease 100bps**
Investment in securities	(31,469,898)	33,619,357
Loans	(18,181,695)	19,480,233
Time deposits	51,560,273	(53,325,870)
Obligations with financial institutions	10,903,850	(11,209,613)
Marketable securities	159,955	(159,802)
Corporate bonds	31,454,968	(34,190,101)
Subordinated and perpetual bonds	3,420,170	(3,777,924)
Net impact	47,847,623	(49,563,720)

June 2019	**Increase 100bps**	**Decrease 100bps**
Investment in 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 Operating Risk

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

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

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

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

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

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

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

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

4.6 Insurance risk

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

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

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

4.7 Capital management

The Bank manages its capital to ensure:

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

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

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

As of June 30, 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.

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

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

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

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

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

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

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

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

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

	September 2019	June 2019
Primary capital (Tier 1)		
Paid in share capital	270,202,657	270,202,657
Excess paid in capital	2,636,467	2,514,337
Declared reserves	40,833,519	40,589,907
Retained earnings	370,847,057	363,695,990
Other items of the comprehensive income	6,110,120	6,099,208
Dynamic reserve	87,863,198	87,863,198
Sub total	778,493,018	770,965,297
Less: Regulatory adjustments to the calculation of ordinary primary capital		
Trade funds	(91,695,403)	(91,695,403)
Other intangible assets	(23,618,975)	(24,004,810)
Total primary capital fund	663,178,640	655,265,084
Perpetual bonds	128,281,679	127,659,710
Total additional primary capital fund	128,281,679	127,659,710
Subordinate capital	7,893,952	7,892,580
Total secondary capital fund	7,893,952	7,892,580
Total capital fund	799,354,271	790,817,374
Risk weighted asset		
Total risk weighted assets	5,694,919,475	5,664,454,845
Capital ratios		
Total regulatory capital expressed as a percentage of risk weighted asset	14.04%	13.96%
Total Tier 1 expressed as a percentage of risk weighted assets	13.90%	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 life time 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 Company 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 Company 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

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 September 2019	Fair value June 2019	Fair value hierarchy	Valuation technique(s) and key data inputs	Significant unobservable input data	Relationship between unobservable input data and fair value
Investments at fair value:						
Shares issued by companies -domestic	6,577,463	6,706,084	Level 2	Observable market prices in non-active markets.	N/A	N/A
Shares issued by companies - domestic	176,532	-	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	525,605	532,580	Level 2	Observable market prices in active markets.	N/A	N/A
Shares issued by companies - foreign, not 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	31,676,775	11,734,734	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - domestic	84,187,527	71,722,779	Level 2	Observable market prices in non-active markets.	N/A	N/A
Private debt securities - domestic	166,771,389	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	161,480,363	143,037,446	Level 1	Observable market prices in active markets.	N/A	N/A
Private debt securities - foreign	9,026,117	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	28,790,682	29,004,532	Level 1	Observable market prices in active markets.	N/A	N/A
Government debt securities - domestic	11,514,335	1,729,469	Level 2	Observable market prices in active markets.	N/A	N/A
Government debt securities - domestic	3,353,130	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	1,012,238	-	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	153,623,460	53,648,620	Level 1	Observable market prices in active markets.	N/A	N/A
Shares issued by domestic companies, not listed in stock exchange	47,765,474	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	706,483,590	533,751,962				
Derivative financial instruments:						
Interest rate swaps – fair value	(4,825,838)	(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	(4,825,838)	(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.

	September 2019	
	Available for sale	
	Effect on equity	
	Favorable	(Unfavorable)
Fixed income instruments	8,305,133	(7,783,311)

	June 2019	
	Availale for sale	
	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 period

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

	September 2019		June 2019	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash and bank deposits	269,868,778	269,868,778	188,684,354	188,684,354
Time deposits	299,931,028	299,931,028	418,971,436	418,971,436
Securities purchased under resale agreements - at amortized cost	5,061,898	5,061,898	5,061,874	5,061,874
Investments at amortized cost	300,632,019	314,138,059	318,255,206	329,536,325
Loans	6,307,131,075	6,359,806,951	6,264,500,855	6,315,723,110
Total financial liabilities	7,182,624,798	7,248,806,714	7,195,473,725	7,257,977,099
Liabilities				
Demand deposits	447,250,098	447,250,098	468,559,586	468,559,586
Savings deposits	946,262,900	946,262,900	961,129,179	961,129,179
Time deposits	3,597,198,402	3,667,858,259	3,468,041,904	3,534,969,702
Obligations with financial institutions	931,352,870	927,539,338	920,612,697	920,928,851
Marketable securities	31,913,000	32,195,472	59,409,000	59,652,798
Corporate bonds	670,998,022	703,663,500	601,536,773	627,744,500
Subordinated bonds	7,893,952	8,010,310	7,892,580	8,010,310
Perpetual bonds	128,281,679	127,462,320	127,659,710	128,696,000
Total financial liabilities	6,761,150,923	6,860,242,197	6,614,841,429	6,709,690,926

	Total	Level 1	Level 2	Level 3
		Fair value hierarchy September 2019		
Assets				
Cash and bank deposits	269,868,778	-	269,868,778	-
Time deposits	299,931,028	-	299,931,028	-
Securities purchased under resale agreements - at amortized cost	5,061,898	-	5,061,898	-
Investments at amortized cost	314,138,059	314,138,059	-	-
Loans	6,359,806,951	-	-	6,359,806,951
Total financial liabilities	7,248,806,714	314,138,059	574,861,704	6,359,806,951
Liabilities				
Demand deposits	447,250,098	-	447,250,098	-
Savings deposits	946,262,900	-	946,262,900	-
Time deposits	3,667,858,259	-	3,667,858,259	-
Obligations with financial institutions	927,539,338	-	927,539,338	-
Marketable securities	32,195,472	-	32,195,472	-
Corporate bonds	703,663,500	578,842,500	89,821,000	35,000,000
Subordinated bonds	8,010,310	-	7,116,460	893,850
Perpetual bonds	127,462,320	-	103,286,320	24,176,000
Total financial liabilities	6,860,242,197	578,842,500	6,221,329,847	60,069,850

	Total	Level 1	Level 2	Level 3
		Fair value hierarchy June 2019		
Assets				
Cash and due from banks	188,684,354	-	188,684,354	-
Time deposits	418,971,436	-	418,971,436	-
Securities purchased under resale agreements - at amortized cost	5,061,874	-	5,061,874	-
Investments at amortized cost	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	-
Repurchase agreements	-	-	-	-
Obligations with financial institutions	920,928,851	-	920,928,851	-
Negotiable trade securities	59,652,798	-	59,652,798	-
Corporate bonds	627,744,500	467,923,500	-	159,821,000
Subordinate bonds	8,010,310	-	8,010,310	-
Perpetual bonds	128,696,000	-	128,696,000	-
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 consolidated financial statements.

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

	September 2019	June 2019
Balance at beginning of the period	192,687,201	132,297,085
Additions	12,000,000	46,213,755
Additions from acquisition of subsidiary	-	119,752
Category changes IFRS 9	-	(5,188,330)
Reclassifications from Level 2 to Level 3	23,780,254	56,687,645
Reclassifications from Level 3 to Level 2	(11,729,860)	(4,456,822)
Net changes in securities	50,529	2,049,363
Redemptions	(1,869,973)	(35,035,247)
Balance at the end of the period	214,918,151	192,687,201

As of September 30, 2019, Level 3 investments in shares at fair value of B/.47,944,506 (June 2019: B/.48,770,867), have been recognized at cost as, according to Management, their cost approximates their fair value.

As of September 30, 2019, Level 3 investments at fair value through other comprehensive income did not affect the Bank's profits or securities available for sale as of June 30, 2019.

The total unrealized gain or loss for Level 3 investments at fair value through other comprehensive income as of September 30, 2019 is B/.556,167 (September 2018: B/.799,996) and can be found in the item line "changes in investments at fair value though other comprehensive income" in the consolidated statement of financial position.

As of September 30, 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 consolidated financial statements is as follows:

	September 2019	June 2019
Transactions with related companies		
Consolidated statement of financial position		
Assets		
Investments at fair value through other comprehensive income	18,420,113	17,970,923
Loans	53,585,987	47,012,367
Accrued interest receivable	187,753	58,792
Other assets	40,551,577	39,358,565
Liabilities		
Client deposits:		
Demands	12,229,252	16,145,095
Savings	17,695,030	14,244,785
Time	107,192,153	107,284,509
Accrued interest payable	212,127	232,778
Commitments and contingencies	41,509,500	42,859,500

Consolidated statement of profit or loss

	September 2019	September 2018
Income and expenses		
Interest and dividend income	701,166	902,600
Interest expenses	1,268,335	833,368

	September 2019	June 2019
Transactions with Directors and key Management personnel		
Consolidated statement of financial position		
Assets		
Loans	13,242,831	13,054,033
Accrued interest receivable	38,608	38,282
Liabilities		
Client deposits:		
Demands	3,601,355	2,939,251
Savings	7,260,884	7,368,865
Time	43,110,557	41,113,166
Accumulated interest payable	322,152	130,564
Commitments and contingencies	1,486,500	1,741,500

Consolidated statement of profit and loss	**September 2019**	**September 2018**
Income and expenses		
Interest income	179,586	154,960
Interest expenses	471,244	403,271
Key Management Personnel's benefits		
Salaries	985,977	921,646
Share option plan for employees	122,130	(177,870)
Allowances for Directors	157,500	112,500
	1,265,607	856,276

As of September 30, 2019, collaterals guaranteeing loans to related parties amounted to B/.133,017,716 (June 2019: B/.135,257,324), which correspond to property, furniture and securities.

As of September 30, 2019, no loans with related parties show evidence of impairment. As of September 30, 2019, loans with related parties with maturities between October 2019 and September 2048 and annual interest rates ranging between 0.75% and 9% (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

	September 2019	June 2019
Cash and cash equivalents	38,170,346	42,955,300
Demand deposits	231,698,432	145,729,054
Time deposits	299,931,028	418,971,436
Cash and bank deposits	569,799,806	607,655,790
Less:		
Restricted time deposits	(29,095,671)	(29,062,681)
Time deposits with original maturities greater than 90 days	(20,287,103)	(18,614,311)
Cash and cash equivalents for purposes of the consolidated statement of cash flows	520,417,032	559,978,798

As of September 30, 2019, there are time deposits with original maturities greater than 90 days for B/.20,287,103 (June 2019: B/.18,614,311). In addition, there are restricted time deposits for B/.29,095,671 (June 2019: B/.29,062,681), which guarantee financial obligations.

8. Securities purchased under resale agreements

As of September 30, 2019, securities purchased under resale agreements for B/.5,061,898 (June 2019: B/.5,061,874) with maturities in December 2019, May and September 2020 (June 2019: 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:

	September 2019	June 2019
Investments at fair value through other comprehensive income	686,621,418	503,970,377
Investments at fair value through profit or loss	19,862,173	29,781,585
Securities held to maturity	300,632,019	318,255,206
Impairment allowance - IFRS 9	(293,227)	(279,397)
Investments in securities, net	1,006,822,383	851,727,771

9.1 Securities at fair value through other comprehensive income

	September 2019	June 2019
Securities listed in stock exchange:		
Shares issued by companies - domestic	1,743,995	1,711,084
Shares issued by companies - foreign	528,105	532,580
Private debt securities - domestic	282,635,691	228,022,179
Private debt securities - foreign	160,518,884	142,083,734
Government debt securities - domestic	43,658,147	34,065,890
Government debt securities - foreign	153,623,460	53,648,620
	642,708,282	460,064,087
Securities not listed in stock exchange:		
Shares issued by companies - domestic	42,900,897	42,900,897
Government debt securities - domestic	1,012,239	1,005,393
	43,913,136	43,906,290
	686,621,418	503,970,377

Investments at fair value through other comprehensive income accrued interest at a rate ranging between 2.125% and 9.75% (June 2019: 2.10% and 9.75%).

As of September 30, 2019 there are investments at fair value through other comprehensive income for B/.3,024,780 (June 2019: B/.34,991,892), which guarantee obligations with financial institutions (See Note 14).

As of September 30, 2019, the Bank sold and redeemed investments for B/.102,951,635 (June 2019: B/.388,886,673) and, as a result, recorded a loss of B/.1,516,702 (September 2019: B/.76,035), which is included in the consolidated statement of profit or loss.

9.2 Securities at fair value through profit or loss

The information based on the new classification category for financial assets of IFRS 9 to fair value through profit or loss, is shown below:

	September 2019	June 2019
Securities listed in the stock exchange		
Shares issued by companies - domestic	5,010,000	4,995,000
Private debt securities - foreign	9,987,596	19,922,008
	14,997,596	24,917,008
Securities not listed in the stock exchange		
Shares issued by companies - domestic	4,864,577	4,864,577
	4,864,577	4,864,577
	19,862,173	29,781,585

9.3 Securities at amortized cost

	September 2019		June 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Securities listed in the stock exchange:				
Private debt securities - domestic	3,048,443	3,080,370	3,050,006	3,084,360
Private debt securities - foreign	210,881,353	219,705,049	213,126,475	219,897,796
Government debt securities - domestic	63,442,692	67,005,522	63,670,027	66,707,268
Government debt securities - foreign	23,259,531	24,347,118	38,408,698	39,846,901
	300,632,019	314,138,059	318,255,206	329,536,325

As of September 30, 2019, the annual interest rate earned by securities at amortized cost ranges between 3.125% and 8.875% (June 2019: 3.125% and 5.182%).

As of September 30, 2019, there are securities at amortized cost for B/.20,717,101 (June 2019: B/.35,239,338), which guarantee obligations with financial institutions. (See Note 14).

10. Loans

	September 2019			June 2019		
	Gross amount	Impairment allowance	Net amount	Gross amount	Impairment allowance	Net amount
Domestic sector:						
Consumer	1,092,002,181	(26,821,827)	1,065,180,354	1,091,040,057	(25,603,592)	1,065,436,465
Commercial	1,285,349,308	(20,570,822)	1,264,778,486	1,265,781,283	(26,620,592)	1,239,160,691
Agricultural	414,715,845	(10,555,287)	404,160,558	432,892,025	(10,690,954)	422,201,071
Pledge	124,336,537	(887)	124,335,650	131,332,191	(2,281)	131,329,910
Overdrafts	147,925,563	(2,537,811)	145,387,752	132,118,688	(2,219,469)	129,899,219
Mortage	1,753,023,739	(13,314,367)	1,739,709,372	1,734,526,046	(13,203,769)	1,721,322,277
Industrial	227,836,628	(5,156,045)	222,680,583	235,750,711	(5,428,161)	230,322,550
Construction	813,643,161	(21,498,738)	792,144,423	827,052,067	(19,548,473)	807,503,594
Financial leasings	60,335,335	(1,770,139)	58,565,196	62,665,605	(2,002,293)	60,663,312
Factoring	205,766,426	(11,355,583)	194,410,843	219,065,171	(11,338,126)	207,727,045
Total domestic sector	6,124,934,723	(113,581,506)	6,011,353,217	6,132,223,844	(116,657,710)	6,015,566,134
Foreign sector:						
Commercial	175,464,933	(1,227,514)	174,237,419	131,199,440	(1,023,058)	130,176,382
Agricultural	947,706	(3,794)	943,912	947,706	(3,773)	943,933
Industrials	39,542,300	(184,123)	39,358,177	40,283,960	(131,809)	40,152,151
Construction	37,217,381	(1,774,619)	35,442,762	37,716,466	(1,883,110)	35,833,356
Pledge	17,970,022	-	17,970,022	17,970,022	-	17,970,022
Overdrafts	45,028,833	(19,615)	45,009,218	41,443,926	(15,395)	41,428,531
Total foreign sector	316,171,175	(3,209,665)	312,961,510	269,561,520	(3,057,145)	266,504,375
	6,441,105,898	(116,791,171)	6,324,314,727	6,401,785,364	(119,714,855)	6,282,070,509
Less:						
Discounted unearned interest and commissions			(17,183,652)			(17,569,654)
Total			6,307,131,075			6,264,500,855

As of September 30, 2019, the loan portfolio accrued interest at a rate ranging from 0.75% to 25.99% (June 2019: 0.75% to 24%).

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

	September 2019	June 2019
Fixed rate	720,271,370	730,258,287
Adjustable rate	5,577,093,107	5,529,408,560
Floating rate (Libor or Prime)	143,741,421	142,118,517
	6,441,105,898	6,401,785,364

The movement of the impairment allowance is summarized as follows:

	September 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	4,121,313	29,422,096
Reserve transferred to retained earnings - Adoption IFRS 9	-	38,399,837
Recoveries	1,157,790	2,651,141
Written-off loans	(8,202,787)	(16,342,224)
Balance at end of the period	116,791,171	119,714,855

Financial leasing

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

	September 2019	June 2019
Less than a 1 year	4,090,661	4,056,430
1 to 5 years	56,244,674	58,609,175
Total	60,335,335	62,665,605
Less: unearned interest	(10,458,788)	(9,587,520)
Total finance leasings, net	49,876,547	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 September 30, 2019, restructured loans that would otherwise be overdue or impaired amount to B/.195,760,123 (June 2019: B/.163,841,165).

	September 2019	June 2019
Consumer:		
Personal loans	13,537,066	12,058,613
Mortgage	81,382,291	77,645,266
Corporate:		
Commercial loans	100,840,766	74,137,286
Total	195,760,123	163,841,165

11. Property, plant, equipment and improvements

September 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	-	-	13,067	46,233	140,000	975	3,831,367	4,031,642
Reclassifications	-	-	376,408	588,357	-	-	(967,497)	(2,732)
Sales and write-offs	-	(5,879)	(96,236)	(215,032)	-	(304,444)	-	(621,591)
At the end of the period	12,396,467	82,204,273	28,360,051	70,855,104	3,413,242	15,303,971	69,243,715	281,776,823
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 for the period	-	689,020	916,222	1,779,344	111,406	219,277	-	3,715,269
Sales and write-offs	-	(5,879)	(92,427)	(215,030)	-	(304,445)	-	(617,781)
At the end of the period	-	17,480,170	15,747,593	41,799,354	2,390,455	3,928,468	-	81,346,040
Net balances	12,396,467	64,724,103	12,612,458	29,055,750	1,022,787	11,375,503	69,243,715	200,430,783

June 2019	Land	Property	Furniture and office equipment	Computer equipment	Vehicles	Leasehold improvements	Projects in progress	Total
Cost:								
At the beginning of the year	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 year	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 year	-	14,295,471	13,354,555	37,747,315	1,944,506	2,276,986	-	69,618,833
Expense for the year	-	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 year	-	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. Other assets

	September 2019	June 2019
Goodwill (a)	91,695,403	91,695,403
Accrued interest receivable	90,211,968	80,920,566
Accounts receivable - National Treasury	85,945,789	79,311,376
Accounts receivable	45,832,186	38,739,766
Accounts receivable - related companies	40,551,577	39,358,565
Guarantee deposits	25,875,024	23,282,212
Deferred income tax	25,550,260	25,878,425
Intangible assets (b)	23,618,975	24,004,810
Foreclosed assets	21,659,782	21,300,081
Prepaid expenses	19,509,472	19,711,111
Insurance premiums receivables, net	14,451,992	12,810,310
Severance fund	7,391,437	7,249,892
Derivative instrument	5,185,371	6,832,298
Tax credit - agrarian subsidy	3,833,607	4,283,129
Legal deposits	3,276,690	1,193,710
Claims to insurance companies	2,000,281	2,009,565
Others	14,112,762	12,261,200
	520,702,576	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	% of shares acquired	September 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		74,932,716	74,932,716
			91,695,403	91,695,403

(b) Intangible assets

As of September 30, 2019, the consolidated statement of financial position holds intangible assets for B/.23,618,675 (June 2019: B/.24,004,810) of which B/.1,389,963 963 resulted from the acquisition of the rights to manage the severance funds' portfolio of HSBC Investment Corporation (Panamá), S.A., by Progreso, which have an estimated life of 20 years. As a result of the acquisition of Progreso by Global Bank, intangible assets were generated for B/.8,454,809, of which B/.1,364,809 correspond to trademarks with an indefinite life and B/.7,090,000 correspond to the client portfolio with an estimated life of 40 years. With the acquisition of Banco Panameño de la Vivienda (Banvivienda), S.A., intangible assets for B/.15,500,000 were generated, which have an estimated life of 12 years.

	September 2019	June 2019
Cost:		
Rights to manage the severance fund portfolio		
Investment Corporation (Panamá, S. A.)	1,389,963	1,389,963
Tradermarks and other intangibles	8,454,809	8,454,809
Intangible assets from 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	(385,835)	(466,952)
	(1,725,797)	(1,339,962)
Net balance at end of the period	23,618,975	24,004,810

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

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

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

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

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

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

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

13. Client deposits

September 2019	Demand	Savings	Time	Total
Economic sector				
Corporate	372,334,864	335,330,156	2,220,680,238	2,928,345,258
Individual	74,915,234	610,932,744	1,329,761,511	2,015,609,489
	447,250,098	946,262,900	3,550,441,749	4,943,954,747
Sector				
Domestic	398,945,400	861,876,257	3,014,169,554	4,274,991,211
Foreign	48,304,698	84,386,643	536,272,195	668,963,536
	447,250,098	946,262,900	3,550,441,749	4,943,954,747

June 2019	Demand	Savings	Time	Total
Economic sector				
Corporate	389,696,097	352,338,780	2,082,266,611	2,824,301,488
Individual	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

14. Obligations with financial institutions

	September 2019	June 2019
As of September 30, 2019, there are obligations with other banks for the financing of foreign trade, with multiple maturities until September 2020 and annual interest rates between 2.2856% and 4.5441% (June 2019: between 2.5509% and 4.5441%.)	318,898,049	316,799,430
As of September 30, 2019, there are obligations with financial institutions for the management of short-term liquidity, with renewal maturities starting May 2020 and interest rates between 2.15% and 3.30% , reviewed semianually (June 2019: between 2.15% and 3.30%).	17,006,833	55,006,833
As of September 30, 2019, there are obligations with international organizations for handling long-term liquidity, with renewal maturities between May 2020 and June 2024 and interest rates between 3.960% and 6.088% (June 2019: between 3.960% and 6.151%.	218,351,100	218,231,830
As of September 30, 2019, there are obligations with foreign banks for working capital, with multiple maturities until June 2022 and annual interest rates between 3.84963% and 4.93213% (June 2019: between 4.05000% and 4.93213%).	231,656,936	233,093,007
As of September 30, 2019, there are obligations with a multilateral financial institution, with various terms and final maturities starting September 2019 until June 2027, interest rates range between 2.0895% and 4.233%, reviewed semiannually (June 2019: between 3.9241% and 4.723%.	145,439,952	97,481,597
	931,352,870	920,612,697

As of September 30, 2019, there are investments at fair value through other comprehensive income for B/.3,024,780 (June 2019: B/.34,991,892) and securities at amortized cost for B/.20,717,101 (June 2019: B/.35,239,338), which guarantee these obligations with financial institutions. Additionally, there are restricted time deposits as of September 30, 2019 for B/.29,095,671 (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:

	September 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	99,176,046	1,653,567,612
Payments made	(88,435,873)	(1,574,763,649)
Balance at the end of the period	931,352,870	920,612,697

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

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

Series	Issuance date	Interest rate	Maturity	September 2019
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
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	Sep-19	3.50%	Sep-20	2,000,000
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-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
				31,913,000

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	Sep-18	3.50%	Sep-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	Sep-18	4.00%	Sep-19	420,000
D-S	Mar-19	3.75%	Sep-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	Sep-18	4.00%	Sep-19	2,500,000
C-L	Mar-19	3.75%	Sep-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:

	September 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 issuance	10,000,000	58,115,119
Redemptions	(37,496,000)	(100,005,966)
Balance at the end of the period	31,913,000	59,409,000

16. Corporate bonds

Type	Interest rate	Maturity	September 2019	June 2019
A Series - October 2014 Issuance	5.13%	Oct-19	306,083,164	305,295,187
A Series - October 2016 Issuance	4.50%	Oct-21	686,992,014	683,525,138
B Series - August 2015 Issuance	4.75%	Aug-19	-	34,899,293
C Series - August 2015 Issuance	5.13%	Aug-20	34,888,518	34,859,071
A Series - August 2018 Issuance	5.00%	Aug-21	29,601,667	29,552,856
B Series - August 2018 Issuance	5.25%	Aug-22	24,473,807	24,446,672
C Series - August 2018 Issuance	5.50%	Aug-23	34,497,198	34,468,877
A Series - April 2019 Issuance	5.25%	Apr-29	399,247,128	295,214,304
			1,515,783,496	1,442,261,398

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

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

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

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

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 unsecured obligations. The coupon is paid semiannually at a fixed rate and changes at a variable rate of 3 months plus 3.30% spread in the last year of the issuance.

The Bank arranged interest rate and exchange rate swaps on bonds, which qualify as fair value hedge. As of September 30, 2019, the net fair value of the hedged instrument attributable to the hedged risk decreased by B/.4,825,838 (June 2019: B/.8,105,718).

17. Subordinated bonds

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

Type	Interest rate	Maturity	September 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	3,035,577	3,034,933
C Series - December 2010 Issuance	6.75%	Aug-70	3,419,375	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
			7,893,952	7,892,580

18. Perpetual bonds

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

Type	Interest rate	September 2019	June 2019
A Series - May 2016 Issuance	6.75%	23,837,687	23,828,043
B Series - July 2016 Issuance	6.75%	90,856,082	90,839,484
C Series - May 2018 Issuance	6.75%	4,087,000	3,592,000
D Series - May 2019 Issuance	6.75%	9,500,910	9,400,183
		128,281,679	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:

	September 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	100,595,000	322,965,552
Redemptions	(35,000,000)	(340,932,184)
Valuation	3,279,881	30,605,615
Premiums, discounts	5,270,558	(812,372)
Balance at the end of the period	1,651,959,127	1,577,813,688

19. Reserves for insurance operations

Unearned premiums

	September 2019	June 2019
Balance at the beginning of period	7,736,732	6,210,542
Premiums issued	9,031,951	30,265,500
Premiums earned	(4,269,290)	(14,153,715)
Balance at the end of the period	12,499,393	22,322,327
Reinsurers' interest	(4,159,690)	(15,200,959)
Unearned premiums, net	8,339,703	7,121,368

Claims pending settlement, estimates	September 2019	June 2019
Balance at the beginning of the period	4,368,926	4,954,175
Claims incurred	3,099,738	12,978,432
Claims paid	(3,099,738)	(12,948,317)
Saldo al final del año	4,368,926	4,984,290
Reinsurers' interest	-	(615,364)
Claims pending settlement, net estimates	4,368,926	4,368,926
	12,708,629	11,490,294

20. Other liabilities

	September 2019	June 2019
Accrued interest payable	70,075,871	51,532,280
Other creditors	42,458,740	28,811,393
Cashiers´ and certified checks	25,886,366	31,329,318
Employee benefits and other labor liabilities	19,169,993	16,444,640
Reserve of insurance operations	15,587,036	15,080,573
Other reserves	7,222,426	8,025,043
Factoring guarantee deposits (b)	7,185,665	8,120,750
Legal and others deposits	6,893,140	6,030,790
Hedge derivative (a)	4,825,838	8,105,718
Accounts payable - Insurance	2,367,166	2,404,254
Special Interest Offsetting Fund (FECI) payable	1,955,861	1,911,600
Income tax payable	87,668	34,639
Others	13,327,802	7,492,780
	217,043,572	185,323,778

a) Hedge Derivatives

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

Fair value hedge

In order to manage its position in the consolidated statement of financial position, the Bank entered into interest rate swap contracts on corporate bonds for B/.856,344,000, allowing the conversion of the fixed interest rate into a floating rate during each payment period.

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

	September 2019 Remaining maturity of nominal 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

	June 2019 Remaining maturity of nominal 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

During the year ended June 30, 2019, the Bank carried out the early cancellation of interest rate swap contracts for a total nominal amount of B/.585,259,000.

The estimated par value and fair value of the derivative instruments as of September 30, 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.

	September 2019		June 2019	
Type	**Par value**	**Fair value**	**Par value**	**Fair value**
Fair value hedge derivatives (for financings)	856,344,000	(4,825,838)	856,344,000	(8,105,718)
Total	856,344,000	(4,825,838)	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.

21. Common shares

As of September 30, 2019, the authorized share capital of Global Bank Corporation is comprised of 2,000,000 common shares with no par value, of which 236,600 (June 2019: 236,600) shares are issued and outstanding worth B/.270,202,657 (June 2019: B/.270,202,657). During the year ended June 30, 2019, 129,500 common shares were issued for an amount of B/.172,000,000.

As of September 30, 2019, a total of B/.12,129,479 (September 2018: B/. 9,279,752) was paid as dividends on common shares.

22. Interest and commission income and expenses

	September 2019	September 2018
Interest earned on:		
Loans	108,239,809	81,600,444
Deposits	2,270,881	1,023,991
Investments	9,791,439	9,206,766
	120,302,129	91,831,201
Interest expense:		
Deposits	(43,054,907)	(29,023,270)
Obligations with financial institutions and repurchase agreements	(9,678,197)	(6,804,454)
Marketable securities and bonds	(24,517,649)	(22,478,514)
	(77,250,753)	(58,306,238)
Net interest income	43,051,376	33,524,963
Commissions earned on:		
Loans	6,732,657	5,910,870
Letters of credit	1,485,834	718,605
Savings accounts and debit cards	1,609,115	1,379,818
Fiduciary and management services	2,676,643	2,104,140
Others	2,984,878	2,346,027
	15,489,127	12,459,460
Commission expenses	(3,946,344)	(3,215,663)
Net commissions income	11,542,783	9,243,797
Net interest and commissions income	54,594,159	42,768,760

23. Other income, net

	September 2019	September 2018
Insurance premiums, net	3,795,347	2,431,615
Net gain on sale of securities	1,516,702	76,035
Net gain on instruments at fair value through profit or loss	80,588	48,379
Fiduciary and brokerage services, net	65,383	33,758
Net loss on derivative financial instruments	(1,606,838)	-
Other income (expenses)	1,413,155	(401,434)
	5,264,337	2,188,353

24. Other expenses

	September 2019	September 2018
Reserve for redemption of miles	864,024	500,000
Surveillance	539,123	507,379
Utilities	473,257	453,100
Communications and correspondance	438,152	443,150
Supplies and stationery	212,836	187,031
Insurance	30,068	44,263
Other operating expenses	1,918,658	2,029,141
Other general expenses	1,500,771	1,907,534
	5,976,889	6,071,598

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

As of September 30, 2019, key executive officers held stock options over 91,232 common shares of the Parent Company (G.B. Group Corporation) (June 2019: 91,232), of which 21,401 shares may be exercised in 2019; 28,828 may be exercised in 2020; 21,412 may be exercised in 2021; and 19,591 may be exercised in 2022, with an average strike price of B/.40.44 as of September 30, 2019 (June 2019: B/.40.44). The Bank recognized income for B/.122,130 (September 2018: B/.177,870) in the 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 Company.

26. Operating lease agreements

Lease agreements

The Bank has several operating leases for its premises with periods between 1 to 5 years. For the period ended September 30, 2019, there were lease payments for B/.1,182,128 (September 2018: B/.1,221,918). Minimum lease commitments under all lease agreements for the next five years are broken down as follows:

	September 2019	June 2019
Less than 1 year	3,185,736	3,117,155
Between 1 and 5 years	13,390,271	13,026,732
More than 5 years	16,716,856	17,218,301
	33,292,863	33,362,188

27. 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:

	September 2019	June 2019
Letters of credit	117,762,962	103,962,439
Endorsements and guarantees	485,267,368	480,973,681
Promissory notes	270,876,942	291,308,678
Unused credit lines	506,481,023	510,768,024
Total	1,380,388,295	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 consolidated statement of financial position.

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

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

As of September 30, 2019, the Bank has commitments for construction projects of its new facilities for B/.2,701,336 (June 2019: B/.2,701,336).

28. Management of trust contracts and investment portfolio

As of September 30, 2019, the Bank held trust contracts at the client's risk that amounted to B/.2,891,177,618 (June 2019: B/.3,100,816,513).

	September 2019	June 2019
Guarantee Trust	2,729,847,478	2,935,977,206
Investment Trust	105,444,432	103,442,637
Management Trust	49,587,862	55,065,616
Pension Trust	3,126,824	3,170,374
Assets - PLICA contract	2,614,847	2,611,046
Testamentary Trust	556,175	549,634
	2,891,177,618	3,100,816,513

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

29. Management of pension and severance funds

	September 2019	June 2019
Severance Fund	272,203,748	273,382,734
Pension Fund (under Law No. 10)	228,872,916	220,857,932
Citibank, N. A.	4,053,141	4,238,540
Pribanco and Conase Plus	313,778	367,612
Bipan Plus	71,048	71,018
Other assets under management	18,719,940	18,534,363
	524,234,571	517,452,199

30. Income tax

Income tax returns for the last three years of banks incorporated in the Republic of Panama are subject to examination by the tax authorities, including for the year ended June 30, 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 is broken down as follows:

	September 2019	September 2018
Current income tax	2,029,731	1,664,578
Deferred tax for temporary differences	328,165	339,535
Income tax	2,357,896	2,004,113

The current income tax's average effective rate is 9.00% (September 2018: 12.00%).

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

	September 2019	June 2019
Balance at the beginning of the period	25,878,425	11,517,322
Effect of acquisition of subsidiary	-	2,680,740
Effect of IFRS implementation	-	9,089,645
Credit to profit or loss during the period	(328,165)	2,590,718
Balance at the end of the period	25,550,260	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:

	September 2019	September 2018
Profit before income tax	22,552,562	14,448,967
Less: non-taxable income	(16,378,446)	(15,099,675)
Plus: non-deductible expenses	1,941,115	7,299,905
Plus: tax loss on subsidiaries	313	324
Taxable base	8,115,544	6,649,521
Income tax calculated at 25%	2,028,886	1,662,380
Remittance income tax	845	2,198
Income tax expense	2,029,731	1,664,578

The deferred income tax asset is broken down as follows:

	September 2019	June 2019
Deferred income tax asset:		
Provision for expected losses	29,425,260	29,753,425
Deferred taxes from acquired intangible asset - core deposit	(3,875,000)	(3,875,000)
Deferred income tax asset	25,550,260	25,878,425

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

September 2019		Charged to Profit or Loss	IFRS adoption	Proceed from the acquisition	
Deferred income tax asset:					
Provision for expected losses	25,878,425	(328,165)	-	-	25,550,260
Deferred income tax asset	25,878,425	(328,165)	-	-	25,550,260

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.

31. Acquisitions

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

The acquisition was made to expand and consolidate the Group's leadership position, for which GB AV, Inc. made payments in the amount of B/.222,932,786. The amount paid was made through: (a) cash transfers worth B/.142,932,786; (b) issuance of shares for 60,000,000 (c) deposits in an escrow account worth B/.20,000,000. In addition, during the year ended June 30, 2019 and as a result of the due diligence process, the Bank required the seller to reimburse the amounts of B/.1,277,654 and B/.7,210,181, the latter presented in the accounts receivable item of other assets in Note 12. Consequently, the net value paid for the transaction, after the adjustments, was B/.214,444,951.

The gross fair value of the assets acquired includes loans for B/.1,352,766,741. The contractual value of these loans at the acquisition date was B/.1,372,458,330 of which B/.18,259,600 are estimated not to be recoverable (impairment).

The results of the acquired operations from acquired businesses for which the Bank has obtained control have been included in the consolidated financial statements.

	2019
Assets:	
Cash and bank deposits	324,550,158
Investments in securities	71,926,980
Loan portfolio	1,352,766,741
Property, furniture and equipment	37,632,453
Other assets	131,623,244
Total assets	1,918,499,576
Liabilities:	
Deposits	1,368,102,539
Other liabilities	423,258,424
Total liabilities	1,791,360,963
Assets at fair value before intangibles	127,138,613
Complementary tax	748,542
Identified intangible assets	15,500,000
Associated deferred income tax	(3,875,000)
Net assets acquired	139,512,155
Purchase price paid	222,932,706
Adjustment to purchase price - account receivable from seller	(7,210,181)
GMT Group Reimbursement - BNP Paribas Case	(1,277,654)
Goodwill	(74,932,716)

The net cash flows from the acquisition are as follows:

Compensation paid in cash	154,444,951
Cash and cash equivalents acquired	(285,578,514)
	(131,133,563)

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

32. Segment information

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

	September 2019			
	Banking and financial activities	Insurance	Pension and severance funds	Total consolidated
Interest and commission income	133,170,274	384,189	2,236,793	135,791,256
Interest expenses and provisions	84,779,164	103,374	(23)	84,882,515
Other income, net	1,390,465	3,795,347	78,525	5,264,337
Other expenses	28,315,947	858,847	730,453	29,905,247
Depreciation and amortization expense	3,680,329	4,646	30,294	3,715,269
Profit before income tax	17,785,299	3,212,669	1,554,594	22,552,562
Income tax	1,275,543	754,394	327,959	2,357,896
Net profit	16,509,756	2,458,275	1,226,635	20,194,666
Total assets	8,536,729,637	50,651,084	22,567,800	8,609,948,521
Total liabilities	7,793,910,454	28,238,400	831,115	7,822,979,969

	September 2018			
	Banking and financial activities	Insurance	Pension and severance funds	Total consolidated
Interest and commission income	102,016,807	398,700	1,875,154	104,290,661
Interest expenses and provisions	64,076,881	60	(45)	64,076,896
Other income, net	(319,985)	2,431,615	76,723	2,188,353
Other expenses	23,450,526	865,943	726,894	25,043,363
Depreciation and amortization expense	2,875,830	5,795	28,163	2,909,788
Profit before income tax	11,293,585	1,958,517	1,196,865	14,448,967
Income tax	1,309,242	429,334	265,537	2,004,113
Net profit	9,984,343	1,529,183	931,328	12,444,854
	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 Subsidiaries

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

Companies	Main economic activity	Date of incorporation	Begnning of operations	Country of incorporation	Percentage of ownership
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:

	September 2019	June 2019
Banking reserves		
Dynamic reserve	87,863,198	87,863,198
Foreclosed assets reserve	8,475,534	8,054,532
Insurance reserves	0	0
Technical reserve	2,759,646	2,516,034
Regulatory reserve	5,749,193	5,749,193
	104,847,571	104,182,957

Agreement 4-2013

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

Specific reserve

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

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

Loan categories

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

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

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

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

September 2019

	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	3,052,328,118	242,661,490	70,357,887	13,853,848	52,046,371	3,431,247,714
Consumer loans	2,716,184,171	108,527,221	31,564,273	19,274,176	41,364,920	2,916,914,761
Other loans	92,943,423	-	-	-	-	92,943,423
Total	5,861,455,712	351,188,711	101,922,160	33,128,024	93,411,291	6,441,105,898
Specific reserve	-	16,481,750	16,311,069	12,312,197	36,150,222	81,255,238
Provision for collective impairment	35,535,933	-	-	-	-	35,535,933

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
Provision for collective impairment	40,533,083	-	-	-	-	40,533,083

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

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

September 2019

	Current	Delinquent	Overdue	Total
Corporate	3,345,285,201	16,403,685	69,558,828	3,431,247,714
Consumer	2,760,647,725	77,631,749	78,635,287	2,916,914,761
Other	92,943,423	-	-	92,943,423
Total	6,198,876,349	94,035,434	148,194,115	6,441,105,898

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

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

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

As of September 30, 2019, loans that do not accrue interest represented an amount of B/.116,423,074 (June 2019: B/.117,033,002).

Dynamic reserve

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

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

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

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

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

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

The table for calculating dynamic reserves is as follows:

Alpha	Beta
1.50%	5.00%

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

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

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

Accounting treatment for differences between prudential standards and IFRSs

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

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

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

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

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

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

	September 2019	June 2019
Component 1		
Risk-weighted assets (credit facilities - normal category)	4,816,062,238	4,816,062,238
Times Alpha coefficient (1.50%)	72,240,934	72,240,934
Component 2		
Quarterly variation times 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 restrictions on 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 year.

Off-balance sheet operations

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

September 2019	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	117,762,962	-	-	-	-	117,762,962
Endorsements and guarantees	485,267,368	-	-	-	-	485,267,368
Promissory notes	270,876,942	-	-	-	-	270,876,942
Unused credit lines	506,481,023	-	-	-	-	506,481,023
Total	1,380,388,295	-	-	-	-	1,380,388,295

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

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

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

Foreclosed assets

As of June 30, 2019, the regulatory reserve on foreclosed assets totals B/.8,475,534 (June 2019: B/.8,054,532) based on what is established in Agreement 3-2009 of the Superintendency of Banks of Panama.

Premiums and notes receivable

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

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

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

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

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

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

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

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	
	September 2019	**June 2019**	**September 2019**	**June 2019**
Balance at the beginning of the period	1,258,018	866,020	1,258,018	866,020
Additions	121,805	391,997	121,805	391,997
Balance at the end of the period	1,379,823	1,258,017	1,379,823	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 regulatory reserve is as follows:

	September 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 September 30, 2019, the liquidity ratio percentage reported to the regulatory body, under the parameters of Agreement 4-2008, was 61.46% (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 September 30, 2019, it has consolidated equity funds of approximately 14.04% (June 2019: 13.96%) of its risk-weighted assets, in accordance with Agreement 1-2015 and Agreement 3-2016. (See Note 4.7).

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

b) Insurance and reinsurance Law

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

c) Securities Law

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 consolidated financial statements of Global Bank Corporation and Subsidiaries for the period ended September 30, 2019 were authorized by General Management and approved by the Board of Directors for their issuance on October 17, 2019.

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