Deloitte.

FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

Prival Bank, S.A. and subsidiaries

(A wholly-owned subsidiary of Grupo Prival, S.A)

Consolidated Financial Statements for the year ended June 30, 2017 and Independent Auditors' Report dated September 7, 2017

Prival Bank, S.A. and subsidiaries
(A wholly-owned subsidiary of Grupo Prival, S.A.)

Independent Auditors' Report and Consolidated Financial Statements as at June 30, 2017

Contents

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

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

FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of
Prival Bank, S.A.

Opinion

We have audited the accompanying consolidated financial statements of **Prival Bank, S.A. and subsidiaries** (the "Bank"), which comprise the consolidated statement of financial position as at June 30, 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the as at June 30, 2017, and its financial performance and cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Auditing Standards (IASs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent in accordance with the Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Panama, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of the utmost importance in our audit of the consolidated financial statements for the current period. These matter were covered in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereof, and we do not provide a separate opinion on these matters.

Valuation of financial instruments

See Note 5.1 (Financial instruments measured at fair value), Note 6 (Critical accounting judgments and key principles of uncertainty in estimates) and Note 10 (Investments in securities) in the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
Investments in securities represent 18% of the total assets as at June 30, 2017. The Bank uses external price suppliers to obtain most of the prices for these investments and also uses internal valuation techniques for certain investments when there is no available price provided by external price suppliers. The valuation of these investments using internal valuation techniques involves Management's judgment and the use of certain inputs which are unavailable in active markets. Since valuations are sensitive to these judgments, there is a risk that small changes in key assumptions may have a significant impact on fair value and, therefore, on the reported results.	Our audit procedures in this area include, among others: • We have tested the design, implementation and operating effectiveness of the key controls on the investment valuation process. • On a sample basis, we have tested the investment valuation at year end. • We have also performed a review of the sources and systems used by Management and compared the valuations with valuations obtained from an independent source using various data where there was a degree of subjectivity. • We have reviewed the classification and accounting treatment of the investment portfolio in accordance with the accounting policies detailed in Note 5.1 to the consolidated financial statements. • We have also used our financial instrument valuation specialists to test the valuation of investments which are not quoted in active markets. • We obtained the SSAE 16 Type 2 reports on the internal controls of price supplier service organizations and the valuation of the complementary controls indicated in those reports on their relevance to the Bank's application.

Allowance for possible loan losses
See Note 3.9 (Identification and measurement of impairment), Note 6 (Critical accounting judgments and key principles of uncertainty in estimates) and Note 11 (Loans) to the consolidated financial statements.

Key audit matter

Loans as at June 30, 2017 amounted to B/.496,819,564, representing 61% of the Bank's assets and the allowance for possible loan losses amounted to B/.2,312,637.

The identification of impairment events and the determination of the impairment charge require the application of Management's significant judgment to determine the values of the allowances.

The reserve for individual impairment is established on the basis of individual loan valuations based on Management's judgments and estimates, when those show a probability of impairment, and the estimated present value of expected future cash flows.

The collective reserve is established according to the concentration of credits with similar credit characteristics. To determine the collective reserve, it uses the payment's probability of default adjusted by a macroeconomic factor, and the loss in the event of such default. This creates a challenge for the audit approach, due to the use of complex models to perform these calculations and the application of Management's judgment.

How the matter was address in our audit

Our audit procedures in this area include, among others:

- We have tested the design, implementation and operating effectiveness of the key controls on the process of impairment analysis of the loan portfolio.

- For loans individually assessed for impairment, we performed the following:

  i. We tested a sample of significant loans not identified as impaired and challenged Management's assumptions on their findings that the loans were not impaired through the re-performance of the loans' credit ratings using updated credit and financial information from the credit file and considering, when available, public information which showed an impairment event.

  ii. We tested a sampled of impaired loans and evaluated the impairment measurement performed by Management through: (a) assessing the value of cash flows from guarantees through the review of information giving the Bank the right over the guarantee and the review of the Bank's independent appraisers, (b) assessing the net realization value of the appraisal; and (c) re-calculating the amount of the provisions.

- For collectively-measured loans, we performed the following:

  i. We tested the delinquency of the loan portfolio and the accuracy and completeness of the information used to calculate the parameters for establishing historical losses used in the allowance for possible loan losses in groups of loans.

Other Information

Management is responsible for the other information. Other information comprises information included in the Annual Update Report, but does not include the consolidated financial statements and the auditor's report thereon. The Annual Update Report is expected to be available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report said fact. We have nothing to report on this matter.

When we read the Annual Update Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those in charge of corporate governance.

Management's Responsibilities and of those in charge of Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Directors are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the International Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also::

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statement. We are responsible for the direction, supervision and development of the Bank's audit. We are solely responsible for our audit opinion.

We communicate with those in charge of corporate governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those in charge of corporate governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those in charge of corporate governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lesbia de Reyes.

(Signed) Deloitte

September 7, 2017
Panama, Republic of Panama

Prival Bank, S.A. and subsidiaries

(A wholly-owned subsidiary of Grupo Prival, S.A.)

Consolidated statement of financial position
At June 30, 2017
(In balboas)

	Notes	2017	2016
Assets			
Cash and cash equivalents	8	126,825,981	174,671,429
Securities purchased under resale agreements	9	-	8,809,931
Investment in securities	7, 10	145,258,035	127,977,432
Loans	7, 11	496,819,564	496,363,325
Investment in other entities	13	5,194,143	3,159,340
Property, furniture, equipment and improvements	14	6,323,081	7,137,414
Intangible assets and goodwill	15	11,872,787	12,335,031
Deferred income tax	27	294,742	194,581
Other assets	7, 16	16,722,934	14,998,974
Total assets		809,311,267	845,647,457
Liabilities and equity			
Liabilities			
Client deposits	7, 17	645,134,160	641,070,406
Interbank deposits	17	15,476,973	16,432,818
Securities sold under repurchase agreements	18	6,431,251	103,406
Financings received	19	4,795,565	45,708,727
Bonds payable	20	31,374,530	48,450,834
Deferred income tax	27	666,372	502,263
Other liabilities	7, 21	11,445,714	10,259,632
Total liabilities		715,324,565	762,528,086
Equity			
Common shares	22	25,000,000	25,000,000
Additional paid-in capital		35,000,000	32,000,000
Regulatory reserve		10,219,016	9,127,194
Net changes in investments in securities available for sale		155,131	(302,953)
Retained earnings		23,612,555	17,295,130
Total equity		93,986,702	83,119,371
Total liability and equity		809,311,267	845,647,457

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

Prival Bank, S.A. and subsidiaries
(A wholly-owned subsidiary of Grupo Prival, S.A.)

Consolidated statement of profit or loss and other comprehensive income
For the year ended June 30, 2017
(In balboas)

	Notes	2017	2016
Interest income	7, 23	45,702,503	41,904,448
Interest expenses	7	(22,714,322)	(19,138,008)
Net financial income		22,988,181	22,766,440
Commission income		2,037,838	2,706,080
Revenue from brokerage service and structuring fees	7, 24	13,420,755	9,377,471
Commission expenses		(2,208,760)	(2,121,757)
Net gain from commission, brokerage services and structuring fees		13,249,833	9,961,794
Gain realized on trading securities		404,878	271,870
Unrealized gain in trading securities		97,349	33,093
Realized gain in available for sale securities		736,899	597,547
Income from ordinary activitites		37,477,140	33,630,744
Other income	7	2,061,705	495,823
(Allowance) reversal of allowance for uncollectible loans	11	(2,791,062)	1,401,005
Allowance for losses on assets available for sale		(28,208)	(845,930)
Salaries and employee benefits	7	(14,514,735)	(14,494,765)
Depreciation and amortization	14, 15	(2,456,671)	(2,116,498)
Others		(8,966,880)	(7,899,303)
Profit before income tax		10,781,289	10,171,076
Income tax expense	27	(1,802,043)	(2,169,470)
Participation in net loss of associate		(899,537)	-
Profit for the year		8,079,709	8,001,606
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Net realized gain on securities available for sale transferred to profit or loss		(736,899)	(597,547)
Unrealized net gain		1,194,983	509,861
Net changes in securities available for sale		458,084	(87,686)
Total comprehensive income		8,537,793	7,913,920

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

Prival Bank, S.A. and subsidiaries
(A wholly-owned subsidiary of Grupo Prival, S.A.)

Consolidated statement of changes in equity
For the year ended June 30, 2017
(In balboas)

	Common Shares	Additional paid-in capital	Regulatory reserve	Net changes in investments in securities available for sale	Retained earnings	Total equity
Balance at June 30, 2015	25,000,000	30,000,000	5,871,164	(215,267)	14,148,516	74,804,413
Profit for the year	-	-	-	-	8,001,606	8,001,606
Other comprehensive income (expenses):						
Net changes in the fair value of investments in securities available for sale	-	-	-	(87,686)	-	(87,686)
Total comprehensive income	-	-	-	(87,686)	8,001,606	7,913,920
Other equity transactions:						
Regulatory reserve	-	-	3,256,030	-	(3,256,030)	-
Transactions attributable to shareholder directly registered in equity:						
Additional paid-in capital	-	2,000,000	-	-	-	2,000,000
Complementary tax	-	-	-	-	(168,962)	(168,962)
Declared dividends	-	-	-	-	(1,430,000)	(1,430,000)
Balance at June 30, 2016	25,000,000	32,000,000	9,127,194	(302,953)	17,295,130	83,119,371
Profit for the year	-	-	-	-	8,079,709	8,079,709
Net changes in fair value of investments in securities available for sale	-	-	-	458,084	-	458,084
Total comprehensive income	-	-	-	458,084	8,079,709	8,537,793
Other equity transactions:						
Regulatory reserve	-	-	1,091,822	-	(1,091,822)	-
Transactions attributable to shareholder directly registered in equity:						
Additional paid-in capital	-	3,000,000	-	-	-	3,000,000
Complementary tax	-	-	-	-	(100,462)	(100,462)
Declared dividends	-	-	-	-	(570,000)	(570,000)
Balance at June 30, 2017	25,000,000	35,000,000	10,219,016	155,131	23,612,555	93,986,702

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

Prival Bank, S.A. and subsidiaries
(A wholly-owned subsidiary of Grupo Prival, S.A.)

Consolidated statement of cash flows
For the year ended June 30, 2017
(In balboas)

	Notes	2017	2016
Cash flows from operating activities:			
Profit for the year		8,079,709	8,001,606
Allowance (reversal) for possible loan losses	11	2,791,062	(1,401,005)
Adjustments for changes in fair value of other assets held to maturity		-	58,804
Depreciation and amortization	14, 15	2,456,671	2,116,498
Income tax expense	27	1,802,043	2,169,470
Realized gain in trading securities		(404,878)	(271,870)
Unrealized gain in trading securities		(97,349)	(33,093)
Net realized gain in securities available for sale		(736,899)	(597,547)
Participation in loss in associate		899,537	
Interest income		(45,702,503)	(41,904,448)
Interest expenses		22,714,322	19,138,008
Net changes in operating assets and liabilities:			
Time deposits in banks with maturities greater than 3 months		(2,210,948)	-
(Increase) in trading securities		(13,625,183)	(9,077,746)
Increase in loans		(2,926,417)	(87,482,364)
Increase in other assets		(1,730,675)	(1,916,800)
Increase in client deposits		3,230,545	92,946,085
Increase in other liabilities		993,329	294,405
Income tax paid		(1,538,624)	(1,347,710)
Interest received		45,265,770	41,341,754
Interest paid		(22,942,081)	(19,082,274)
Net cash (used in) provided by operating activities		(3,682,569)	2,951,773
Cash flows from investment activities:			
Decrease (increase) in demand deposits and restricted time deposits		1,390,577	(4,282,570)
Purchase of securities available for sale		(55,865,329)	(34,507,620)
Proceeds from sale of securities available for sale		55,172,508	36,925,232
Acquired subsidiary balance		(1,170,051)	-
Securities purchased under resale agreements		8,801,827	(8,801,827)
Investments in other entities	13	(2,934,340)	(546,840)
Acquisition of intangible assets	15	(848,034)	(1,045,432)
Acquisition of property and equipment, net	14	(332,060)	(551,661)
Net cash provided by (used in) investment activities		4,215,098	(12,810,718)
Cash flows from financing activities:			
Securities sold under repurchase agreements		6,319,606	103,373
Borrowed funds		2,569,304	34,635,000
Borrowed funds paid		(43,346,106)	(5,829,243)
Bonds payable	20	18,780,000	22,507,230
Redemptions of placements		(35,879,306)	-
Additional paid-in capital		3,000,000	2,000,000
Dividends paid		(570,000)	(1,430,000)
Complementary tax		(100,462)	(168,962)
Net cash (used in) provided by investment activities		(49,226,964)	51,817,398
Net (decrease) increase in cash and cash equivalents		(48,694,435)	41,958,453
Cash and cash equivalents at the beginning of the year		139,380,090	97,421,637
Cash and cash equivalents at year-end	8	90,685,655	139,380,090
Non-monetary transaction in investing and financing activities:			
Other assets held for sale		1,339,520	-
Dividends payable		-	1,072,500

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

1. General information

Prival Bank, S.A. (the "Bank"), formerly called Keen Holding, Inc., was incorporated by Public Deed No.18876 of January 20, 2008 in accordance with the laws of the Republic of Panama and started operations on April 2009. Keen Holding, S.A. changed its name to Prival Bank, S.A. by Public Deed No.1082 of January 21, 2010.

A General License was granted to Prival Bank, S.A. issued through Resolution No.048-2010 of February 25, 2010 by the Superintendency of Banks of Panama to operate the banking business throughout the Republic of Panama and transactions to be perfected, executed, or having effect abroad, and perform such other activities authorized by the Superintendency of Banks of Panama. The Bank started operations on March 24, 2010 and is a wholly-owned subsidiary of Grupo Prival, S.A., an entity incorporated on April 8, 2009 in accordance with the laws of the Republic of Panama.

The main activities of the Bank are described in Note 12.

The Bank's main offices are located at 50th Street and 71st Street, San Francisco, Panama City.

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

2.1 Standards and interpretations adopted with no effect on the consolidated financial statements

There were no International Financial Reporting Standards (IFRSs) or Interpretations to the International Financial Reporting Standards (IFRICs), effective for the year that began on July 1, 2016, which had a significant effect on the consolidated financial statements.

2.2 New and revised International Financial Reporting Standards issued but not yet effective

The Bank has not adopted the following new and revised standards and interpretations that have been issued but are not yet effective.

<u>IFRS 9 - Financial Instruments: Classification and Measurement.</u>

IFRS 9 – Financial Instruments (revised 2014):

Phase 1: Classification and measurement of financial assets and financial liabilities;
Phase 2: Impairment methodology; and
Phase 3: Hedge accounting.

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 - which will supersede IAS 39 - Financial Instruments: Recognition and Measurement.

When compared to IFRS 9 in its revised version of 2013, the 2014 revision includes changes that are limited to the classification and measurement requirements by adding a measurement category (FVTOCI) to "fair value with changes in other comprehensive income" for certain simple debt instruments. It also adds impairment requirements inherent in accounting for an entity's expected credit losses on financial assets and commitments to extend credit.

The completed IFRS 9 contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology and c) general hedge accounting.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement under IFRS 9, all recognized financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortized cost or fair value. Specifically:

- A debt instrument that: (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortized cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.
- A debt instrument that: (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at (FVTOCI), unless the asset is designated at (FVTPL) under the fair value option.
- All other debt instruments must be measured at (FVTPL).
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognized in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at (FVTOCI), with dividend income recognized in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as (FVTPL) is presented in profit or loss.

Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. More disclosure requirements about an entity's risk management activities have been introduced.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018; early adoption subject to local requirements is allowed.

The Bank is currently evaluating the potential impact on the consolidated financial statements resulting from the application of the amendments made in July 2014 to IFRS 9.

The Bank has started the implementation of IFRS 9, including a rating system and default probabilities and methodology of loss given default and reserve calculation.

Given the nature of the Bank's operations in particular, it is expected to calculate the impairment of financial instruments under the expected loss methodology that may lead to an increase in the overall level of the provision for impairment.

IFRS 15 – Revenue from contracts with customers

The Standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and replaces the specific income recognition guidelines by industry. The fundamental principle of the model is to 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. The new standard provides a simple, five-step model based on principles to be applied to all contracts with customers.

The effective date is for annual periods beginning on or after January 1, 2018 and its early adoption is allowed.

The Bank is assessing the impact of IFRS 15 on the consolidated financial statements.

IFRS 16 – Leases

IFRS 16 eliminates classification of leases either as operating leases or finance leases for the lessee. Instead, all leases are recognized similarly to finance leases under IAS 17. Leases are measured at the present value of future lease payments and are presented either as leased assets (assets by right of use) or together with property, furniture and equipment.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that also adopt IFRS 15 - *Revenue from contracts with customers*.

At the date of the consolidated financial statements, the Bank has not assessed the impact that the adoption of this standard will have on the consolidated financial statements.

Amendments to IAS 7 – Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of the consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments are effective for annual periods beginning on or after January 1, 2017.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify how an entity must assess if there is sufficient future taxable income to which the Bank could apply the deductible temporary differences.

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

Amendments to IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation establishes how to determine the accounting tax position when there is uncertainty about the treatment of income tax.

The interpretation requires that the entity:

a. Determine whether uncertain tax positions are valued separately or as a group; and
b. Assess whether it is likely that the tax authority will accept the use of, or proposed use of, an uncertain tax treatment by an entity in its income tax returns:
    - If yes, the entity must determine their accounting tax position consistent with the tax treatment used or planned to be used in its income tax returns.
    - If not, the entity should reflect the effect of the uncertainty in determining its accounting tax position.

Effective for annual periods beginning on or after January 1, 2019.

3. Significant accounting policies

3.1 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the investments available for sale and trading securities, which are measured at fair value.

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

3.2 Basis of consolidation

3.2.1 Subsidiaries

The consolidated financial statements include the assets, liabilities, equity and operations results of Prival Bank, S.A. and subsidiaries controlled by the Bank: Control is achieved when all the criteria shown below are met:

- Has power over investment;
- Is exposed, or has rights, to variable returns derived from its participation 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 or not it controls an entity if 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 a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank voting rights in an investee are sufficient to give it power, including

- The size of the Bank's holding of voting rights relative to the size and dispersion of holdings 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' meetings.

Consolidation of a subsidiary begins when the Bank obtains control and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidates statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other Bank members.

All significant intercompany balances, transactions, revenues and expenses are eliminated on consolidation.

3.2.1.1 Changes in the Bank's 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.

3.2.2 Investment companies and separate vehicles

The Bank handles and manages assets held in trusts and other investment vehicles in support of investors. The financial statements of these entities are not part of these consolidated financial statements, except when the Bank has control over the entity.

3.2.3 Investments in other entities

It is an entity over which the Bank has significant influence, but does not have control or joint control over financial or operating policies. Investments in other entities are accounted for using the equity method and are initially recognized at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the participation on the profit or loss and other comprehensive income under the equity method, after adjustments to present them consistently with the accounting policies, as of the date on which the significant influence began until the date on which the same ceases.

When the participation in an associate's losses equals or exceeds its participation in the associate, participation in the additional losses is no longer recognized. The carrying amount of the investment, together with any long-term interest that, in essence, forms part of the investee's net investment, is reduced to zero, except if the Bank has an obligation or payments to make on behalf of the investee.

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 fair value of the consideration received and the fair value of any retained interest and (ii) the previous book 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 (i.e. reclassified to profit or loss or 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 the control is lost is regarded as the fair value on initial recognition of a financial asset for subsequent accounting under IAS 39 or, when applicable, the cost of the initial recognition of an investment in an associate or a joint venture.

3.3 Functional and presentation currency

The functional and presentation currency of the consolidated financial statements is the United States dollar.

The functional currency of the subsidiaries is:

- United States Dollars for Panama
- Colones for Costa Rica

In preparing the financial statements of the individual entities members of the Bank, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the exchange rates prevailing at the dates in which operations are conducted. At the end of each reporting period under review, monetary items denominated in foreign currencies are converted at the exchange rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are converted at the exchange rates prevailing at the date on which such fair values were determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not reconverted.

Exchange differences on non-monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences from borrowings denominated in foreign currencies related to assets under construction for productive use future, which are included in the cost of such assets to be considered as an adjustment to interest costs on such loans denominated in currency foreign ;
- Exchange differences from transactions related with exchange rate hedges; and
- Exchange differences on monetary items receivable from or payable to related to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), the which they are initially recognized in other comprehensive income and reclassified from equity to profit or loss on repayment of non-monetary items.

For presentation purposes of the consolidated financial statements, the assets and liabilities of the foreign currency transactions of the Bank are converted into the presentation currency using the exchange rates prevailing at the end of the reporting period. Income and expenses items of are translated at average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates transactions are used. Exchange differences arising are recognized in the consolidated statement of profit or loss and other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Bank's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset) all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Bank are reclassified to profit or loss.

In addition, with respect to a partial disposal of a subsidiary (including a foreign operation), the entity shall re-attribute the proportionate share of accumulated exchange differences to non-controlling interests amount and are not recognized in profit or loss. In any other partial disposal (i.e. partial disposal of associates or joint agreements that do not involve the loss of significant influence and joint control by the Bank) the entity will reclassify to profit or loss only the proportionate share of the cumulative amount of exchange differences.

Adjustments for goodwill and fair value of identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

3.4 Financial assets

Financial assets are basically classified into the following specified categories: investments in securities, securities bought under resale agreements and loans. The classification depends on the nature and purpose of the financial asset and is determined at initial recognition.

Recognition

Regular purchases and sales of financial assets are recognized in the settlement date in which the Bank commits to purchase or sell the asset.

The Bank initially recognizes financial assets and liabilities at the date on which they originate. Purchases and sales of financial assets are recognize on the date of the transaction in which the Bank commits to purchase or sell the asset. All other assets and financial liabilities are initially recognized on the settlement date, which is the date that the Bank becomes party to the contractual provisions of the instrument.

A financial asset or liability is initially measured at fair value plus, in the case of an item not subsequently valued at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

The gain or loss on a financial asset that is measured at fair value and not part of a hedging relationship are recognized in the consolidated statement of profit or loss and other comprehensive income.

The gain or loss on a financial asset that is measured at amortized cost and not part of a hedging relationship is recognized in the statement of profit or loss and other comprehensive income when the financial asset is derecognized, has suffered an impairment or is reclassify as well as through the amortization process.

Securities bought under resale agreements.

Securities purchased under resale agreements are transactions of short-term financing collateralized securities in which the Bank takes possession of the securities at a discounted market value and agrees to resell to the debtor at a future date and at a specified price. The difference between the repurchase value and future sales price is recognized as income under the method of effective interest rate.

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

The market prices of the underlying securities are monitored and if there is a material and non-transient impairment in the value of a specific title, the Bank could further obtain more guarantees where appropriate.

Trading securities

Trading securities are those investments acquired for the purpose of generating a profit in the short-term market price fluctuations. These securities are stated at fair value and changes in value are recognized in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

Investment in securities available for sale

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

After initial recognition, investments available for sale are measured at fair value. For those cases which are not reliable estimates of fair value, investments are held at cost or amortized cost.

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

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

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

Interest income is recognized in profit or loss using the effective interest rate method.

Loans

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

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

Loans also include finance lease receivable (see Note 3.17).

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to receive cash flows from the asset expire; or when the Bank has transferred financial assets and substantially all risks and rewards of ownership of the asset to another entity. If the Bank does not transfer or retain substantially all risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associate liability for amounts it may have to pay. If the Bank retains substantially all risks and rewards of ownership of financial assets transferred, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset the difference between the asset's carrying amount and the sum of the consideration received and any cumulative gain or loss should be recognized in the consolidated statement of profit or loss and other comprehensive income.

The Group carries out transactions by which it transfers assets recognized in the consolidated statement of financial position, but conserves all or substantially all risks and rewards of the transferred assets or a part of them. In such cases, the transferred assets are not derecognized. Examples of this type of operations are securities lending transactions and sale and repurchase transactions.

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

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

3.5 Client deposits, securities sold under repurchase agreements and other financial liabilities

Client deposits

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

Securities sold under repurchase agreements

The securities sold under repurchase agreements are transactions of short-term financing with guarantees of securities, which have the obligation to repurchase the securities sold at a future date and at a specified price. The difference between the selling price and the value of future purchase is recognized as interest expense under the method effective interest rate.

Classification as debt

Debt instruments are classified as financial liabilities in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as 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.

Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus payments to the principal, plus or minus the cumulative amortization using the effective interest method of any difference between the amount initial recognized and the maturity amount, minus any reduction for impairment.

Derecognition of financial liabilities

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

3.6 Offsetting of financial instruments

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

3.7 Interest

Interest income and expense are recognized in the consolidated statement of profit or loss for all financial instruments that generate interest using the effective interest method.

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

The calculation of the effective interest rate includes transaction costs, fees and commissions paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issuance of an asset or a financial liability.

3.8 Commission income

Fees, income and commission expenses that are an integral part of the effective interest rate of a financial asset or liability are included in the effective interest rate measurement.

Interest income and commissions of the loan portfolio and other transactions medium and long term are recorded using the effective interest method, on an accrual basis. Loans and advances accrue interest until they are collected or deemed uncollectible credit, at which time they are written off; fees for loan origination, net of costs arising from direct loans, are deferred and recognized over the life of the loan as an adjustment to yield using the effective interest rate. Interest income and commissions at the time the receivables are paid in full, any unamortized amounts of administrative loan fees, net of costs arising from direct loans, are recognized as income by interest. Deferred income net of costs, are presented under the heading of Loan in the accompanying consolidated statement of financial position.

Other income and expenses from fees and commissions are mainly related to fees for transactions and services, which are recorded as income and expenses as they give or receive services.

Commissions on loans and other transactions, net of certain direct costs from providing them, are deferred and amortized during their lives.

On the other hand, revenues from brokerage services and issuance structuring correspond to the fees charged for the purchase and sale of securities on behalf of clients and debt structuring. These revenues are recognized in the Bank's results on the settlement date of the transaction.

3.9 Impairment identification and measurement

The Bank assesses at each reporting date if there is objective evidence that the financial assets stated at cost are impaired.

A financial asset or group of financial assets is impaired only if there is objective evidence demonstrating that a loss event occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

The objective evidence that a financial asset is impaired includes:

- Significant financial difficulties 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, the Bank grants a concession to the borrower that the lender would not otherwise consider;
- It is probable that the borrower will enter bankruptcy or another financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

In addition, in the case of equity instruments classified as available for sale, a significant or prolonged decrease in the fair value of the financial asset below its cost is taken into account in determining whether the assets are impaired.

Impairment losses on assets recognized at amortized cost corresponding to the difference between the carrying amount of the financial asset and the present value of future payments discounted at the original effective interest rate of the asset. Losses are recognized in profit or loss and reflected in an allowance account for uncollectible loans.

The Bank considers evidence of impairment of the loan portfolio at both a specific asset and collective. All loans in the loan portfolio at the individual level are assessed for specific impairment and those who are not recognized as impaired specifically are subsequently evaluated for any signs of deterioration incurred but not yet been identified . Loans from the loan portfolio that are not individually significant are collectively assessed in search of impairment by grouping them by similar risk characteristics.

In making an assessment, whether an investment in sovereign debt is impaired, the Bank considers the following factors:

- The market’s assessment of creditworthiness as reflected in the bond yields.
- Rating agencies assessments of creditworthiness.
- The country's ability to access capital markets for new debt issuance.
- The probability of debt being restructured to resulting in holders suffering losses, through voluntary or mandatory debt forgiveness.

- International support mechanisms in place to provide the necessary support as a "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of political intent, whether there is the capacity to fulfill the required criteria.

In assessing collective impairment, the Bank uses statistical models of historical trends of default probability, the timing of recoveries, and the amount of the loss incurred, adjusted according to Management's judgment as to whether current economic conditions and credit are such that actual losses could be higher or lower than those suggested by historical models. Default rates, loss rates incurred and the expected future recovery schedules are regularly benchmarked against actual results to ensure that they remain appropriate.

Individually assessed

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

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

C*ollectively assessed*

For purposes of a collective evaluation of impairment, loans are grouped according to similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the ability of borrowers' payment of the amounts owed according to the contractual terms of the assets being evaluated.

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

Measurement of impairment

Impairment losses on assets recognized at amortized cost corresponding to the difference between the carrying amount of the financial asset and the present value of future payments discounted at the original effective interest rate of the asset. Impairment losses on assets available for sale are calculated as the difference between the carrying amount and fair value when the fair value is less than the carrying amount.

Reversal of impairment

For assets measured at amortized cost: When a subsequent event causes a decrease in the amount of the impairment loss, the decrease in impairment loss is reversed through profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss; otherwise any increase in fair value is recognized through other comprehensive income.

Impairment losses recognized in profit or loss on equity instruments are not reversed through in profit or loss, but the amount is recognized in the equity account.

Presentation

Losses are recognized in profit or loss and reflected in an allowance account for uncollectible loans.

For financial assets available for sale, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on financial assets previously recognized in other comprehensive income are reclassified to profit or loss.

Write-off

The Bank derecognizes a loan or investment in a debt instrument, partially or totally, and any allowance related to impairment losses, when it determines that there is no realistic prospect of recovery.

3.10 Property , furniture, equipment and improvements

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

Depreciation and amortization are charged to expenses and are calculated using the straight-line method based on the estimated useful life of assets:

Furniture and office equipment	5 - 10 years
Computer equipment	3 - 10 years
Transportation equipment	3 - 5 years
Improvements	7 - 10 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 selling 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 and other comprehensive income.

3.11 Repossessed assets for sale

Non-current assets received by the Bank's consolidated entities for the satisfaction, in whole or in part, of the payment obligations of its debtors are considered assets received in lieu of payment, unless the consolidated entities have decided to make continuing use of these assets and they are recognized by the lowest value between the carrying amount of loans not paid or fair value less selling costs.

Management considers it prudent to maintain an allowance to recognize the risks associated with the devaluation of assets that could not be sold, which is recorded against results of operations.

3.12 Impairment of non-financial assets

At 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 suffered an impairment 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 are independent of 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 sale costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate before tax that reflects current market assessments with respect to the time value of money and the specific risks of the asset to which estimated future cash flows have not been adjusted.

If it is estimated that the recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Immediately an impairment loss is recognized as expense.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but in such a way that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss would not have been recognized for the asset (cash-generating unit) in prior years. Immediately a reversal of an impairment loss is recognized as income.

At June 30, 2017, Management has not identified any impairment of non-financial assets.

3.13 Financial Leases

Financial leases consist mainly of leases of equipment and vehicles, which are reported as part of the loan portfolio.

3.14 Business combination

A business combination should be accounted for by applying the acquisition method. The consideration for each acquisition is measured at fair value, which is calculated as the sum of the fair value at the acquisition date of the assets transferred, liabilities incurred or assumed, and equity instruments issued by the Bank in exchange for control of the acquiree. Costs related to the acquisition are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 respectively*;*
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date.
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the equity interest previously held by the acquirer in the acquiree (if any) on the net at the date of acquisition of the identifiable assets acquired and liabilities assumed amounts . If, after reassessment, the net amounts at the date of acquisition of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the stake previously maintained by the acquirer in the acquiree (if any), the excess is recognized immediately in profit or loss as a gain on purchase value below the market price.

Non-controlling interests that represent ownership interests and guarantee their holders a proportionate share of the net assets of the entity in liquidation may be initially measured at fair value or the proportionate share of the non-controlling of the amounts recognized in the net identifiable. The choice of measurement basis is made on a transaction based on transaction. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Bank in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at fair value at the acquisition date and is included as part of the consideration transferred in a combination of business. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments to goodwill. The settings of the measurement period are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

In the case of business combinations achieved in stages, the Bank's participation in the acquiree is re-measured to fair value at the acquisition date (i.e. the date on which the Bank obtained control) and the resulting gain or loss, if any, it is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

3.15 Goodwill

At acquisition date, goodwill is calculated as the excess of acquisition cost over the fair value of identified net assets. Goodwill is not amortized. Instead, it is reviewed annually to determine whether there are indicators of impairment in carrying value. If such indicators exist, the difference between the carrying value and the recoverable amount of goodwill is recognized in profit or loss of the period. Goodwill is presented at cost less accumulated impairment losses, if any. Goodwill is allocated to cash generating units for the purpose of assessing impairment.

3.16 Intangible assets

Software licenses are stated at amortized cost. Amortization is calculated on the cost of the license based on the straight-line method over the estimated useful life of three years.

3.17 Assets held for sale

Assets held for sale are recorded in accordance to IFRS 5 *"Non-current assets held for sale and discontinued operations"* and they are classified as such if the carrying amount will be mainly recovered through a sales transaction and not by its continued use.

Assets held for sale are stated at the lesser value between their carrying amount and their fair value less sale costs.

3.18 Employee benefits

Panamanian legislation:

Current labor regulations require that on completion of the employment relationship, regardless of the cause, the employer must recognize in favor of the employee a seniority premium rate of one week's salary for each year of service. Additionally, the Bank is required to pay termination benefits to those employees terminated without cause. There is no material reduction plan making it necessary to create a reserve for the percentage required by the labor regulations for this item.

The Bank has established reserve for the seniority premiums of workers, consisting of 1.92% of all wages earned, required by the existing labor regulations. These are deposited in a trust fund administered by a private, independent trustee to the Bank; said funds are included in the figures for other liabilities in the statement of financial position.

Costa Rican legislation:

Costa Rican law requires payment of a severance fund for employees in cases of unjustified dismissal, retirement or death. The legislation provides for the payment of 7 days for employees with 3 or 6 months of employment, 14 days for those with more than 6 months and less than a year and finally for those with more than a year a maximum of 8 years in accordance with a rate established by the Worker Protection Act.

In accordance with Worker Protection Act, during the time that the employment relationship is maintained all employers have to contribute the fund based of 3% of monthly salaries paid to the Supplementary Pension Scheme. This fund will be collected by the Costa Rican Social Security Fund and transferred to entities authorized by the employee. Besides, 3% of wages paid is transferred to the Employees Solidarity Association, which is recorded as an expense when incurred. Both contributions are considered as advances to the unemployment fund.

3.19 Operating Leases

Payments for operating leases are recognized as an expense using the straight-line method during the term of the lease, unless another systematic basis for distribution is more representative for showing the temporary pattern of leasing benefits more accurately for the user. Contingent lease payments are recognized as expenses in the periods in which they are incurred.

3.20 Income tax

The annual income tax includes both current tax and deferred tax. The income tax is recognized in results of operations for the current year. The current income tax refers to the estimated tax payable on taxable income of the period, using the rate prevailing at the date of the consolidated statement of financial position.

Deferred tax

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

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

Complementary tax

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

3.21 Trust operations

Assets held in trust or in trust function are not considered part of the Bank, and accordingly, such assets and related income are not included in the accompanying consolidated financial statements. Commission income generated from management of trusts are recorded under the accrual method, in the consolidated statement of profit or loss and other comprehensive income.

3.22 Cash equivalents

For purposes of the consolidated statement of cash flows, the Bank considers as cash and cash equivalents, cash, demand and time deposits in banks with original maturities of three months or less.

3.23 Fair value measurement and valuation process

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants of the main market at the measurement date, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects the risk of default.

To estimate the fair value of an asset or liability, the Bank uses observable data when they are available. Periodically, Management informs to the Board of Director the reasons of the most significant fluctuations in the fair value of the assets and liabilities, to report on the valuation techniques and inputs used in the fair value of assets and liabilities. (see Note 5).

The Bank discloses transfers between fair value hierarchy levels at the end of the period during which the change occurred.

4. Financial risk management

4.1 Objectives of financial risk management

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

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

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

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

- Audit Committee, under the direction of the Board of Directors
- Assets and Liabilities Committee (ALCO)
- Risk Committee

Additionally, the Bank is subject to the regulations of the Superintendency of Banks of Panama and the Superintendency of Securities Exchange of Panama, in relation to concentration risks, liquidity and capitalization, among others. The Superintendency of Banks of Panama regulates the operations of Prival Bank, S.A.

Prival Bank, S.A. (Costa Rica) is subject to the supervision of the National Council of Supervision of the Financial System (CONASSIF) and the General Superintendency of Financial Entities (SUGEF), who issue regulations on comprehensive risk management and capital structure, among others.

4.2 Credit Risk

It is the risk of a financial loss for the Bank, which may take place if a client or a counterparty of a financial instrument fail to meet their contractual obligations arising mainly on loans to customers and investment in securities.

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

The respective committees appointed by the Board of Directors of the Bank periodically monitor the financial condition of the debtors and issuers of negotiable instruments that involve a credit risk for the Bank. The Credit Committee consists of members of the Board, credit management staff, and representatives of the business areas. This Committee is charged with developing changes to credit policies, and to present them to the Board of the Bank.

Formulation of credit policies:

Credit policies are issued or revised as recommended by any member of the Credit Committee, who must suggest in writing, considering the following factors:

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

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

Establishment of authorization limits:

The limits for approval of credits are established based 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 of the Bank.

Exposure limits:

To limit exposure, maximum limits have been defined for an individual debtor or economic group; limits that have been set based on the Bank's capital funds.

Concentration limits

To limit concentration per activity or industry, exposure limits have been approved based on capital distribution and strategic planning to be given to the loan portfolio.

The Bank has also limited its exposure in different geographical areas through the country risk policy, in which countries have been defined to have exposure based on the Bank's strategic plan, as well as, exposure limits have been implemented on credit and investment in such countries based on the credit rating of each one.

Maximum limits by counterparty:

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

Compliance review policies:

Each business unit is responsible for the quality and performance of their credit portfolios as well as for the control and monitoring of risks. However, through the Risk Department, which is independent of the business areas, the debtor's financial condition and its ability to pay is periodically evaluated, giving primary importance to the biggest individual debtors. While for the rest of the loans that are not individually significant, they are followed up through the delinquency ranges presented by their payments, and to the particular characteristics of such portfolios.

4.2.1 Credit quality analysis

The following table shows the information related to the credit quality of financial assets.

	Maximum exposure	
	2017	**2016**
Deposits in banks	125,505,943	173,521,991
Investments in securities	145,258,035	127,977,432
Loan portfolio	496,819,564	496,363,325
Total	767,583,542	797,862,748
Credit risk exposure related to off-balance sheet :		
Sureties and endorsements	14,542,588	13,631,163
Payment promise letter	4,465,987	3,668,479
Credit lines to be disbursed	20,362,916	905,346
Total	39,371,491	18,204,988

The table above represents the most critical scenario of credit risk exposure to the Bank at June 30, regardless of credit guarantees or of another increase of exposure to credit risk.

For the assets in the consolidated statement of financial position, exposures set out above are based on net carrying amounts reported in the consolidated statement of financial position.

The table below analyzes the credit quality of financial assets and impairment allowances held by the Bank for these assets:

	Loans		Investments in securities	
	2017	**2016**	**2017**	**2016**
Maximum Exposure				
Carrying amount, net	496,819,564	496,363,325	145,258,035	127,977,432
At amortized cost				
Risk level				
Range 1 - Normal	473,947,579	457,827,580	145,258,035	127,977,432
Range 2 - Special mention	12,525,283	21,805,276	-	-
Range 3 - Sub-normal	3,182,018	2,973,412	-	-
Range 4 - Doubtful	1,055,321	2,203,928	-	-
Range 5 - Unrecoverable	2,159,347	1,734,967	-	-
Gross amount	492,869,548	486,545,163	145,258,035	127,977,432
Allowance for loans	(1,915,692)	(1,748,965)	-	-
Unearned interest and commissions	(1,454,612)	(1,822,472)	-	-
Carrying amount, net	489,499,244	482,973,726	145,258,035	127,977,432
Renegotiated loans				
Gross amount	7,110,518	12,624,738	-	-
Impaired amount	7,110,518	12,624,738	-	-
Allowance for loans	(396,945)	-	-	-
Carrying amount, net	6,713,573	12,624,738	-	-
Financial leasings				
Risk level				
Range 1 - Normal	536,042	616,155	-	-
Range 2 - Special mention	70,781	148,828	-	-
Gross amount	606,823	764,983	-	-
Allowance for loans	-	-	-	-
Unearned interest and commissions	(76)	(122)	-	-
Carrying amount, net	606,747	764,861	-	-

	Loans		Investment in securities	
	2017	**2016**	**2017**	**2016**
Investments in securities available for sale				
Low risk				
Carrying amount	-	-	114,277,579	111,345,982
Impairment allowance	-	-	-	-
Carrying amount, net	-	-	114,277,579	111,345,982
Investment in securities with changes in profit or loss				
Low risk				
Carrying amount	-	-	30,980,456	16,631,450
Impairment allowance	-	-	-	-
Carrying amount	-	-	30,980,456	16,631,450
Not delinquent nor impaired				
Range 1 - normal	480,171,425	464,422,019	145,258,035	127,977,432
Range 2 - special mention	7,300,262	24,006,976	-	-
Range 3 - sub-normal	70,923	2,051,407	-	-
Range 4 - doubtful	-	82,367	-	-
	487,542,610	490,562,769	145,258,035	127,977,432
Delinquent but not impaired				
30 to 60 days	208,176	754,335	-	-
61 to 90 days	209,823	99,367	-	-
91 to 120 days	37,930	21,510	-	-
121 to 180 days	13,435	222,372	-	-
more than 181 days	78,157	157,054	-	-
Sub-total	547,521	1,254,638	-	-
Individually impaired				
Range 2 - special mention	5,790,540	3,580,839	-	-
Range 3 - sub-normal	3,327,711	854,690	-	-
Range 4 - doubtful	1,298,375	2,104,236	-	-
Range 5 - uncollectible	2,080,132	1,577,712	-	-
Sub-total	12,496,758	8,117,477	-	-
Impairment rallowance				
Individual	(2,227,923)	(1,623,639)	-	-
Collective	(84,714)	(125,326)	-	-
Total impairment allowance	(2,312,637)	(1,748,965)	-	-
Unearned interest and commissions	(1,454,688)	(1,822,594)	-	-
Total	496,819,564	496,363,325	145,258,035	127,977,432
Off-balance sheet operations				
Range 1 - normal	39,260,411	18,047,821	-	-
Range 2 - special mention	32,127	44,791	-	-
Range 3 - sub-normal	47,653	35,300	-	-
Range 4 - doubtful	31,300	77,076	-	-
Total	39,371,491	18,204,988	-	-

Below is the aging of the loan portfolio delinquencies:

	2017	2016
Current	495,728,858	495,390,934
From 31 to 90 days	1,874,568	863,910
Over 90 days	2,983,463	3,680,040
Total	500,586,889	499,934,884

The information and assumptions used for these disclosures are detailed below:

- *Impairment of loans and investments* - Impairment of loans and investments is determined by considering the amount of principal and interest, based on the breach of contractual terms.
- *Past due loans but not impaired* - Refers to those loans where contractual payment of principal or interest is past due, but that the Bank considers as not impaired based on the level of guarantees available to cover the loan balance.
- *Renegotiated loans* - These are loans mainly due to material difficulties in the repayment ability of the debtor, has been subject to extensions, payment arrangement, restructuring, refinancing and any other form that causes variations in time and/or amount or other terms and conditions of the original contract, which respond to difficulties in the debtor's capacity to pay.
- *Write-off policy* - Loans are charged to losses when it is determined that they are uncollectible. This determination is made after considering a number of factors including: the inability to pay the debtor; when the collateral is insufficient or is not properly constituted; or is established that all resources were exhausted for the credit recovery made by the collection management.

Time deposits placed in banks

Time deposits in Banks held by the Bank in central Banks and other financial institutions with investment grade at least between AAA y BBB-, based on Standard and Poor´s, Moody’s and Fitch Ratings Inc., amounted to B/.10,729,272 (73%) (2016: B/.48,600,533 (56%)).

2017	Securities purchased under resale agreements	Trading Securities	Securities avalaible for sale	Total
With investment grade	-	10,573,036	32,425,882	42,998,918
Standard monitoring	-	10,374,947	23,886,015	34,260,962
Unrated	-	10,032,473	57,965,682	67,998,155
Total	-	30,980,456	114,277,579	145,258,035

2016	Securities purchased under resale agreements	Trading Securities	Securities avalaible for sale	Total
With investment grade	-	3,214,998	56,068,741	59,283,739
Standard monitoring	-	-	26,116,364	26,116,364
Unrated	8,809,931	13,416,452	29,160,877	51,387,260
Total	8,809,931	16,631,450	111,345,982	136,787,363

In the above table, the factors of greatest risk exposure of the investment portfolio have been detailed.

To manage financial risk exposures of the investment portfolio, the Bank uses the rating from external credit rating, as detailed below:

Grade description	*External qualification*
Investment grade	AAA, AA+, AA-, A+, A-, BBB+, BBB, BBB-
Standard monitoring	BB+, BB, BB-, B+, B, B-
Special Monitoring	CCC to C
Unrated	-

4.2.2 Collateral and other guarantees against credit exposures

The Bank holds collateral on loans to customers relating to deposits pledged in the Bank. Estimates of fair value are based on the collateral value as the credit period and generally are not updated unless the credit is deteriorating individually.

Guarantees to reduce credit risk and their financial effect

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

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

	% Exposure subject to collateral requirements		Type of guarantee
	2017	**2016**	
Loan portfolio	66%	49%	Cash, properties and others

Loans are subject to individual credit assessment and impairment tests. The overall solvency of a corporate client tends to be the most relevant indicator of the credit quality of the loans granted. However, the guarantee provides additional security. It is accepted as collateral on movable and immovable property, deposits and other encumbrances and guarantees.

Residential mortgage loans

The following table shows the ratio range of the mortgage portfolio loans relative to the value of collateral ("Loan to Value" - LTV). The LTV is calculated as a percentage of gross loan amount relative to the value of the collateral. The gross amount of the loan, excludes any impairment loss. The value of collateral for mortgages is based on the original value of the guarantee at the date of disbursement.

	2017	**2016**
Residential mortgage loans :		
Less than 50%	9,093,955	5,592,454
51% - 70%	13,700,820	11,056,093
71% - 90%	8,641,063	8,299,747
More than 90%	5,738,615	2,264,650
Total	37,174,453	27,212,944

4.2.3 Concentration of credit risk

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

	2017		2016	
	Loans	**Investments in securities**	**Loans**	**Investmets in securities**
Concentration by sector				
Corporate	431,679,074	89,714,549	441,343,800	85,222,706
Consumer	68,907,815	-	58,591,084	-
Government	-	55,543,486	-	42,754,726
	500,586,889	145,258,035	499,934,884	127,977,432
Geographical concentration:				
Panama	259,060,012	84,790,177	243,558,424	87,047,300
Latin America and Caribbean	241,434,512	52,959,733	256,292,820	40,758,165
North America	15,978	7,508,125	13,484	171,967
Europe, Asia and Oceania	76,387	-	70,156	-
	500,586,889	145,258,035	499,934,884	127,977,432

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

4.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet all its obligations. The Bank mitigates this risk by setting limits on the minimum proportion of the funds that must be held in highly liquid instruments and composition limits of interbank and financing facilities.

Management process of liquidity risk

The risk management process of liquidity risk of the Bank as is performed, includes:

- The cash supply, managing and monitoring of future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or borrowed by customers. The Bank maintains an active presence in global money markets to prevent any noncompliance;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen availability of cash flow;
- Monitoring liquidity rate of the consolidated financial position against internal and regulatory requirements;
- Managing the concentration and profile of maturities of financial liabilities.

The Asset and Liability Committee (ALCO) reviews the above management process.

The monitoring and reporting prepared by Management, becomes a tool for measuring and projecting the cash flow for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturities of financial liabilities and the expected collection date of the financial assets.

Management also monitors medium-term assets, the level and type of debt obligation, the use of overdraft facilities and the impact of contingent liabilities, such as 'standby' letters of credit and guarantees.

Liquidity risk exposure

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets on net deposits received from customers. Liquid assets are cash and cash equivalents and debt securities, for which there is an active and liquid market, less any other deposit received from banks, debt securities issued, other borrowings and commitments maturing within one month.

The indexes corresponding to the margin of net assets on the deposits received from customers of Prival Bank, S.A. at the date of the consolidated financial statements, as follows:

	2017	**2016**
At year end	**49%**	**51%**
Year average	46%	46%
Year maximum	49%	53%
Year minimum	43%	40%

The Bank is exposed to daily demands on its available cash resources from overnight deposits, current accounts, time deposits, payments of loans and guarantees and of cash-settled margin requirements.

The information presented below shows the discounted cash flows of financial assets and liabilities of the Bank on maturity groupings based on the remaining time on the date of the consolidated statement of financial position with respect to the contractual maturity date:

2017	**Up to 1 month**	**From 1 to 3 months**	**Up to 1 year**	**From 1 to 5 years**	**More than 5 years**	**Total**
Financial assets						
Deposits in banks	120,223,365	3,071,630	2,210,948	-	-	125,505,943
Investments in securities:						
For trading	228,022	-	517,821	2,389,448	27,845,165	30,980,456
Available for sale	31,252,497	-	7,469,033	20,619,492	54,936,557	114,277,579
Loans	36,108,801	28,693,141	149,130,900	191,280,797	95,373,250	500,586,889
Total assets	187,812,685	31,764,771	159,328,702	214,289,737	178,154,972	771,350,867
Financial liabilities						
Client deposits	313,387,196	24,556,247	137,796,072	169,355,678	38,967	645,134,160
Interbank deposits	15,476,973	-	-	-	-	15,476,973
Securities sold under repurchase agreements	6,431,251	-	-	-	-	6,431,251
Financings received	2,569,580	-	-	-	2,225,985	4,795,565
Bonds payable	31,374,530	-	-	-	-	31,374,530
Total liabilities	369,239,530	24,556,247	137,796,072	169,355,678	2,264,952	703,212,479
Net position	(181,426,845)	7,208,524	21,532,630	44,934,059	175,890,020	68,138,388

2016	**Up to 1 month**	**From 1 to 3 months**	**From 3 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Financial assets						
Deposits in banks	172,268,295	1,053,404	200,292	-	-	173,521,991
Securities purchased under purchase agreement	8,809,931	-	-	-	-	8,809,931
Investments in securities:						
For trading	13,234,213	-	182,239	1,883,346	1,331,652	16,631,450
Available for sale	8,421,108	1,615,347	1,132,494	41,625,810	58,551,223	111,345,982
Loans	39,331,458	83,711,250	184,270,259	139,558,310	53,063,607	499,934,884
Total assets	242,065,005	86,380,001	185,785,284	183,067,466	112,946,482	810,244,238
Financial liabilities						
Client deposits	331,957,630	49,428,375	179,377,244	80,307,157	-	641,070,406
Interbank deposits	16,432,818	-	-	-	-	16,432,818
Securities sold under repurchase agreements	103,406	-	-	-	-	103,406
Financings received	3,172,484	1,132,997	8,459,931	32,894,867	48,448	45,708,727
Bonds payable	-	10,003,322	25,957,382	12,490,130	-	48,450,834
Total liabilities	351,666,338	60,564,694	213,794,557	125,692,154	48,448	751,766,191
Net position	(109,601,333)	25,815,307	(28,009,273)	57,375,312	112,898,034	58,478,047

The table below shows the undiscounted cash flows of the Bank's financial liabilities recognized on the basis of their closest possible maturity. The expected flows of these instruments may vary significantly from these analyzes.

2017	Carrying amount	Undiscounted cash flows	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Financial liabilities						
Deposits received	660,611,133	673,442,362	521,836,196	108,001,436	43,604,730	-
Securities sold under repurchase agreements	6,431,251	6,431,251	6,431,251	-	-	-
Financing received	4,795,565	4,978,501	3,023,889	1,345,222	609,390	-
Bonds payable	31,374,530	31,374,530	-	31,374,530	-	-
Total financial liabilities	703,212,479	716,226,644	531,291,336	140,721,188	44,214,120	-

2016	Carrying amount	Undiscounted cash flows	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Financial liabilities						
Deposits received	657,503,224	670,066,656	531,590,496	74,054,612	62,653,145	1,768,403
Securities sold under repurchase agreements	103,406	103,406	103,406	-	-	-
Financing received	45,708,727	49,757,552	15,258,614	2,677,362	31,821,576	-
Bonds payable	48,450,834	50,951,140	30,556,325	20,394,815	-	-
Total financial liabilities	751,766,191	770,878,754	577,508,841	97,126,789	94,474,721	1,768,403

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

4.4 Market Risk

Is the risk that the value of a financial asset is reduced by the Bank due to changes in interest rates, changes in foreign exchange rates, by movements in stock prices or the impact of other financial variables are beyond the control of the Bank.

The Bank mitigates its market risk through a policy of investment diversification and the requirement that, unless by approval of the Board of Directors, substantially all of the assets and liabilities are denominated in United States Dollars or Balboas.

Market risk management*:*

Policies and global limits of exposure to investments established in the Investment Manual are established and approved by the Board of Directors of the Bank based on the recommendation of the Asset and Liability Committee, taking into consideration the portfolio and assets they contain.

The Bank's investment policies handle the compliance of limits for a total amount of the investment portfolio, individual limits per asset type, issuer and country; for each portfolio, instruments to be included and their credit risk rating are specified.

Additionally, the Bank has established maximum limits for market risk losses in its trading portfolio, arising from movements in interest rates, credit risk and fluctuations in market values of equity investments.

The Bank uses the model of Value at Risk (VAR) for managing the market risks of its investment portfolio in trading securities. The methodology corresponds to the historical model which is based on the volatility presented by the prices of each of the positions in a time lapse of one year with a confidence level of 99%.

The investment policy does not contemplate the use of derivatives as part of its investment strategy or for the management of financial assets and liabilities of the Bank.

Exposure to market risk*:*

The portfolios of trading and available for sale securities of the Bank are intended primarily to maintain an inventory of securities to meet the demand of its customers of private banking investments and Prival Securities, Inc. Additionally, the Bank's investment policies provide a limit up to B/.15 million whose purpose is to generate profits in a short-term period.

Below is a breakdown and analysis of each of the market risk types:

- Exchange rate risk: It is the risk that the value of a financial instrument will fluctuate because of changes in exchange rates of foreign currencies, and other financial variables, as well as the reaction of market participants to political and economic events. For purposes of accounting standards, this risk neither comes from financial instruments that are not monetary items, nor from financial instruments denominated in the functional currency of each of the countries where the subsidiaries are settled.
- Interest rate risk of the cash flow and fair value: The interest rate risk of the cash flow and interest rate risk of fair value are the risks that future cash flows and the value of a financial instrument will fluctuate because of changes in market interest rates.

4.4.1 Exchange rate risk

The table below shows the net position of the Bank to foreign exchange risk in foreign operations:

	2017				
	Colones expressed in USD	**Euros expressed in USD**	**CHF expressed in USD**	**Other currencies expressed in USD**	**Total**
Exchange rate	**567.09**	**1.1426**	**1.042529**		
Deposits in banks	8,478,480	32,265,446	3,602,482	20,672	44,367,080
Investments in securities	9,254,620	-	-	-	9,254,620
Loans	43,370,521	-	-	-	43,370,521
Total financial assets	**61,103,621**	**32,265,446**	**3,602,482**	**20,672**	**96,992,221**
Client deposits	50,228,309	31,150,851	3,555,787	-	84,934,947
Total financial liabilities	**50,228,309**	**31,150,851**	**3,555,787**	**-**	**84,934,947**
Total net of currency positions	**10,875,312**	**1,114,595**	**46,695**	**20,672**	**12,057,274**

	2016				
	Colones expressed in USD	**Euros expressed in USD**	**CHF expressed in USD**	**Other currencies expressed in USD**	**Total**
Exchange rate	**541.67**	**1.1052**	**0.9793**		
Deposits in banks	7,608,361	32,915,077	5,317	(7,728)	40,521,027
Investments in securities	9,288,800	-	-	-	9,288,800
Securities purchased under resale agreement	101,223	-	-	-	101,223
Loans	43,197,046	-	-	-	43,197,046
Total financial assets	**60,195,430**	**32,915,077**	**5,317**	**(7,728)**	**93,108,096**
Client deposits	51,943,122	54,863,832	-	-	106,806,954
Securities sold under repurchase agreement	103,373	-	-	-	103,373
Total financial liabilities	**52,046,495**	**54,863,832**	**-**	**-**	**106,910,327**
Total net of currency positions	**8,148,935**	**(21,948,755)**	**5,317**	**(7,728)**	**(13,802,231)**

4.4.2 Interest rate risk

The Bank's net interest margin may vary as a result of movements in unanticipated interest rates. The table below summarizes the Bank's exposure to financial assets and liabilities based on whichever occurs first between the new contractual fixed rate and the maturity date.

2017	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Financial assets:						
Bank deposits	120,223,365	3,071,630	2,210,948	-	-	125,505,943
Investments in securities						
For trading	228,022	-	517,821	2,389,448	27,845,165	30,980,456
Available for sale	31,252,497	-	7,469,033	20,619,492	54,936,557	114,277,579
Loans	36,108,801	28,693,141	149,130,900	191,280,797	95,373,250	500,586,889
Total financial assets	187,812,685	31,764,771	159,328,702	214,289,737	178,154,972	771,350,867
Financial liabilities:						
Client deposits	313,387,196	24,556,247	137,796,072	169,355,678	38,967	645,134,160
Interbank deposits	15,476,973	-	-	-	-	15,476,973
Securities sold under repurchase agreements	6,431,251	-	-	-	-	6,431,251
Financing received	2,569,580	-	-	-	2,225,985	4,795,565
Bonds payable	-	-	-	31,374,530	-	31,374,530
Total financial liabilities	337,865,000	24,556,247	137,796,072	200,730,208	2,264,952	703,212,479

2016	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Financial assets:						
Bank deposits	172,268,295	1,053,404	200,292	-	-	173,521,991
Securities purchased under						-
resale agreements	8,809,931	-	-	-	-	8,809,931
Investments in securities:						
For trading	13,234,213	-	182,239	1,883,346	1,331,652	16,631,450
Available for sale	8,421,108	1,615,347	1,132,494	41,625,810	58,551,223	111,345,982
Loans	39,331,458	83,711,250	184,270,259	139,558,310	53,063,607	499,934,884
Total financial assets	242,065,005	86,380,001	185,785,284	183,067,466	112,946,482	810,244,238
Financial liabilities:						
Client deposits	331,957,630	49,428,375	179,377,244	80,307,157	-	641,070,406
Interbank deposits	16,432,818	-	-	-	-	16,432,818
Securities sold under repurchase agreements	103,406	-	-	-	-	103,406
Financing received	3,172,484	1,132,997	8,459,931	32,894,867	48,448	45,708,727
Bonds payable	-	10,003,322	25,957,382	12,490,130	-	48,450,834
Total financial liabilities	351,666,338	60,564,694	213,794,557	125,692,154	48,448	751,766,191

4.4.2.1 Sensitivity to interest rates

The sensitivity analysis below has been determined on the basis of the Bank's exposure to interest rates on interest-bearing assets (included in the interest rate exposure tables above) at the date of the consolidated statement of financial position and the stipulated change that takes place at the beginning of the financial year.

	Sensitivity in net interest income			
	2017	2016	2017	2016
	Increase of 100 bp		Decrease of 100 bp	
At end of the year	1,745,890	1,467,917	(1,745,890)	(1,467,917)
Average for the year	1,877,826	1,503,727	(1,877,826)	(1,503,727)
Maximum for the year	2,126,855	1,685,666	(1,651,768)	(1,294,903)
Minimum for the year	1,651,768	1,294,903	(2,126,855)	(1,685,666)

	Sensitivity in investment income at fair value			
	2017	2016	2017	2016
	Increase of 100 bp		Decrease of 100 bp	
At end of the year	(3,811,885)	(5,339,456)	4,137,823	5,801,682
Average for the year	(4,475,020)	(5,306,332)	4,849,453	5,777,248
Maximum for the year	(3,811,885)	(4,985,685)	5,766,558	6,570,718
Minimum for the year	(5,318,866)	(6,018,416)	4,137,823	5,431,068

The Bank in order to evaluate interest rate risks and their impact on the fair value of assets and liabilities, performs simulations to determine the sensitivity of financial assets and liabilities.

The analysis performed quarterly by Management is to determine the net impact on financial instruments subject to market risk, taking into account the specific effects caused by increases and decreases of 100 basis points in interest rates.

4.5 Operational risk

It is the risk of potential losses, direct or indirect, relating to Bank processing, personnel, technology and infrastructure, and external factors that are not related to credit, market and liquidity, such as those from legal and regulatory requirements and the behavior of 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.

To manage operational risk, the Bank has established an organizational structure with functions and responsibilities clearly established for the Board of Directors, Senior Management, Risk Committee and of the Risk Management Unit, as well as the form and periodicity of the reports, with a level of acceptable operational risk.

The purpose of operational risk management is to:

- Prevent and minimize losses caused by incidents or operational risk events.
- Formalize identification, measurement, mitigation, monitoring and control and operational risk information.
- Focus resources and efforts on key operational risks.
- Continuously improve controls and learning.

Periodic audits and internal audits are routinely carried out to improve efficiency, control and neutralize identified weaknesses. The corresponding manual is updated periodically.

The Bank uses operational risk monitoring in accordance with operational risk indicators (KRIs).

4.6 Capital Management

The Bank manages its capital to ensure:

- Compliance with requirements established by the Superintendency of Banks of Panama.
- The continuation as a going concern while maximizing returns to shareholders through the optimization of debt and equity balance.
- Maintain a capital base, strong enough to support its business performance.

The Bank, as an entity regulated by the Superintendency of Banks of Panama, is required to maintain a total capital ratio measured on the basis of risk weighted assets.

The capital adequacy and the use of regulatory capital are monitored by the Bank's Management based on guidelines and techniques developed by the Superintendency of Banks of Panama. Requests for information are sent to the regulators on a quarterly basis.

The Bank analyzes its regulatory capital by applying the rules of the Superintendency of Banks established for General License banks, based on Agreement 5-2008 of October 1, 2008 and amended by Agreement 4-2009 of July 9, 2009. The Bank has capital funds of 12.06% (2016:13.13%) on its weighted risk-based assets.

5. Fair value of financial instruments

The estimated fair value is the amount by which financial instruments can be traded in a common transaction between interested parties, other than in a forced sale or liquidation and is best evidenced by market quotations, if any.

The fair value estimates are made at a specific date, based on market estimates and information on financial instruments. These estimates do not reflect any premium or discount that could result from offering a particular financial instrument for sale at a given date. These estimates are subjective in nature, involve uncertainties and matters of significant judgment and, therefore, cannot be determined accurately. Any changes in assumptions could affect estimates significantly.

5.1 Financial instruments measured at fair value

Fair value hierarchy

IFRS 13 sets a hierarchy level of the valuation techniques based on the transparency of the variables used in determining the fair value. All the financial instruments at fair value are categorized in one of the three levels of hierarchy:

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for assets or liabilities identical to those the entity can access at the measurement date.
- Level 2 - Inputs are other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, or similar in markets that are not active.
- Level 3 - Inputs are unobservable inputs for the asset or liability.

When the fair value measurements for assets and liabilities that are required or permitted to be recorded at fair value are determined, the Bank considers the main market or the best market that could make the transaction and considers the assumptions that a market participant would use to value the asset or liability. When possible, the Bank uses active markets and observable market prices for identical assets and liabilities.

When identical assets and liabilities are not traded in active markets, the Bank uses observable market data for similar assets and liabilities. However, certain assets and liabilities are not actively traded in observable markets and the Bank must use alternative valuation techniques to determine the fair value measurement. The frequency of transactions, the size differential between supply and demand and the investment size are factors considered in determining the liquidity of markets and the relevance of observed prices in these markets.

Investments available for sale are carried at fair value based on quoted market prices when available, or if they are not available, on the basis of discounted future cash flows using market rates commensurate with the credit quality and maturity of the investment.

When the reference prices are available in an active market, the available investments for sale they are classified within level 1 of the fair value hierarchy. If the prices of market value are not available or available in markets that are not active, the fair value is estimated based on the quoted prices of similar instruments, or where these are not available, internal valuation techniques are used, primarily models of discounted cash flows. Such securities are classified within level 2 of the fair value hierarchy.

Some of the financial assets and liabilities of the Bank are valued at fair value at the end of each year.

Fair value of financial assets and liabilities that are measured at fair value

Some of the Bank's financial assets are measured at fair value at the end of each year. The following table provides information on how the fair values of financial assets are determined (including the valuation technique and inputs used).

Fair value measurement of trading securities

	2017	Level 1	Level 2	Level 3
Private debt securities	6,320,361	5,348,008	512,735	459,618
Mutual funds	9,387,855	68,522	9,319,333	-
Government debt securities	15,272,240	10,588,590	4,551,547	132,103
	30,980,456	16,005,120	14,383,615	591,721

	2016	Level 1	Level 2	Level 3
Private debt securities	182,474	-	182,474	-
Mutual funds	13,234,213	-	13,234,213	-
Government debt securities	3,214,763	3,037,749	-	177,014
	16,631,450	3,037,749	13,416,687	177,014

Fair value measurement of available for sale securities

	2017	Level 1	Level 2	Level 3
Government debt securities	44,324,236	11,854,686	32,469,550	-
Private debt securities	29,885,922	-	7,345,182	22,540,740
Mutual funds	8,746,996	-	8,746,996	-
Listed shares	519,337	173	519,164	-
Unlisted shares	7,439,603	-	-	7,439,603
Preferred shares	15,591,915	-	-	15,591,915
	106,508,009	11,854,859	49,080,892	45,572,258

	2016	Level 1	Level 2	Level 3
Government debt securities	38,789,752	20,343,240	18,446,512	-
Private debt securities	64,157,185	10,685,455	26,658,570	26,813,160
Mutual funds	7,234,072	-	-	7,234,072
Corporate common shares	814,973	178	78,602	736,193
	110,995,982	31,028,873	45,183,684	34,783,425

The Bank maintains equity instruments for B/.7,769,570 (2016: B/.350,000), which are maintained at cost because they are not in an active market and their fair value cannot be reliably determined; these values were classified in level 3 of the fair value hierarchy.

The following table presents non-observable variables used in the valuation of financial instruments classified in Level 3 of fair value:

Instruments	Valuation techniques	Used unobservable variables	Interrelationship between unobservable variables and fair value
Governments and private debt securities	Discounted cash flow	Credit margin	If the credit margin increases, the price decreases and viceversa

Below are the main valuation methods, assumptions and variables used in the estimation of the fair value of financial instruments:

Instruments	Valuation techniques	Variables used	Level
Government debt securities	Market prices	Observable market prices	1 - 2
Private debt securities	Market prices	Observable market prices	1 - 2
Mutual funds	Asset net value	Observable market prices	1 - 2
Corporate common shares	Market prices	Observable market prices	1 - 2

During the year ended June 30, there were no transfers between level 1 and 2.

The movement of financial instruments classified in Level 3 is presented below:

	2017	2016
Balance at the beginning of the year	35,310,439	18,381,859
Balance of the acquired subsidiary	1,170,051	-
Purchases and additions	23,276,982	16,327,068
Category reclassifications	91,304	11,425,013
Changes in the fair value	(142,457)	160,114
Sales and redemptions	(6,091,896)	(11,102,807)
Accrued interest receivable	319,126	119,192
Balance at the end of year	53,933,549	35,310,439

During 2017, investments classified as available for sale were transferred from level 2 to level 3, since certain inputs used to determine their fair value became non-observable inputs.

5.2 Fair value of the Bank's financial assets and liabilities which are not measured at fair value (but require fair value disclosures)

The following is a summary of the carrying amount value and the estimated fair value of the significant financial assets and liabilities which are not measured at fair value:

	Fair value hierarchy				
2017	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying amount**
Financial assets:					
Bank deposits	-	-	125,513,728	125,513,728	125,505,943
Loans	-	-	500,126,450	500,126,450	500,586,889
Total financial assets	-	-	625,640,178	625,640,178	626,092,832
Financial liabilities:					
Client deposits	-	-	660,028,619	660,028,619	660,611,133
Securities sold under repurchase agreements	-	6,431,251	-	6,431,251	6,431,251
Financings received	-	-	4,854,095	4,854,095	4,795,565
Bonds payable	-	34,346,572	-	34,346,572	31,374,530
Total financial liabilities	-	40,777,823	664,882,714	705,660,537	703,212,479

	Fair value hierarchy				
2016	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying amount**
Financial assets:					
Bank deposits	-	-	173,521,991	173,521,991	173,521,991
Securities purchased under resale agreements	-	-	8,809,931	8,809,931	8,809,931
Loans	-	-	503,022,820	503,022,820	499,934,884
Total financial assets	-	-	685,354,742	685,354,742	682,266,806
Financial liabilities:					
Client deposits	-		662,724,319	662,724,319	657,503,224
Securities sold under repurchase agreements	-	103,406	-	103,406	103,406
Financings received	-	-	45,705,411	45,705,411	45,708,727
Bonds payable	-	-	49,980,154	49,980,154	48,450,834
Total financial liabilities	-	103,406	758,409,884	758,513,290	751,766,191

Assumptions used to determine the fair value of assets and liabilities

The following is a summary of the assumptions used in the fair value estimate for the Bank's most important financial instruments:

Deposits in banks

Discounted cash flows using the current market interest rates of 1.16% for loans or new debt financings with similar remaining maturities.

Securities purchased/sold under repurchase/resale agreements

The fair value of financial assets shown above in Level 2 approximates its fair value due to their short-term nature.

Loans

The estimated fair value for loans represents the amount of estimated future discounted cash flows receivable. The portfolio's cash flow are discounted at a present value at a rate of 7.06% for the consumer portfolio; 6.58% corporate and financial leasings (2016: 6%).

Client deposits

The fair value of time deposits, with maturities greater than one year, is estimated using the discounted cash flows technique applying current market interest rates offered for deposits with similar terms and maturities, and for those with maturities under one year, the carrying amount is estimated.

Bonds payable

The fair value of bonds payable is estimated using the discounted cash flows technique applying market reference rates offered for the bonds for each currency.

Financings received

The fair value of financing received is estimated using the discounted cash flows technique applying market reference rates offered for the borrowings for each currency.

6. Critical accounting judgments and key principles of uncertainty in estimates

In applying the Bank's accounting policies, which are described in Note 3, Management must make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

Estimates and assumptions are based on historical experience and other factors considered relevant. Actual results may differ from these estimates.

The underlying estimates and assumptions are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimate is revised when it affects only that period or on the revision period and future periods if the revision affects both the current and future periods.

6.1 Key principles of uncertainty in estimates

Below are key assumptions concerning the future and other key principles of the estimation for uncertainty at the date of the consolidated statement of financial position that have a significant risk causing material adjustments to the carrying amount of assets and liabilities within the next financial period.

6.1.1 Impairment losses on uncollectible loans

The Bank reviews its loan portfolio periodically to determine whether there is objective evidence of impairment on a loan or loan portfolio. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss and other comprehensive income, the Bank makes decisions as to whether there is observable data indicating there is a reduction in the value of the loan. This evidence includes observable data indicating there has been an adverse change in the payment status of the borrowers. Once the deterioration is known in the value of a loan, the Bank creates provisions and makes the verification of the possibilities for recovery.

In establishing impairment losses, an important factor assumption is determining the value of cash flows expected to be received from the guarantees obtained.

In determining the fair value of guarantees, Management uses judgments based on the fair value of the securities at the beginning of the life of the loan, reduced according to impairment assumptions determined by types of securities, taking into account Management's experience of the realizable value thereof.

6.1.2 Impairment of investments available for sale

The Bank determines that investments are impaired when: (1) there has been a significant or prolonged decline in fair value below cost; (2) when the issuer of the securities suffers noticeable deterioration in its economic solvency or there are chances of bankruptcy; and (3) there has been a default either capital or interest . Specifically, the determination that what is significant or prolonged, requires judgment.

In making this judgment, the Bank evaluates among other factors, the normal volatility in the price of the instrument compared to the volatility of similar instruments or signs of the industry. In addition, recognizing impairment may be appropriate when there is evidence of a deterioration in the financial health of the entity in which it has invested, the performance of the industry and operating and financial flows.

6.1.3 Fair value of investments in securities

The fair value of investments that have no active market price is determined using valuation techniques. In these cases, fair value is estimated using observable data regarding similar financial instruments or valuation models. When observable market data for valuation cannot be obtained, the estimate is made on key assumptions and by applying valuation models that are adequate with the Bank's business model. All models are approved by the ALCO Committee before being used and are calibrated to ensure that the output values adequately estimate the fair value.

Some assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, observable market data is used to the extent it is available.

The Bank's treasury closely cooperating with qualified external appraisers, establish techniques and appropriate inputs to the valuation model.

Valuation findings are reported monthly to the Risk Committee, which in turn, analyzes fluctuations in the fair value of the asset or liability in question.

Valuation techniques used to determine the fair values of Level 2

Level 2: Quoted prices in active markets for similar financial instruments or using a valuation technique where all variables are obtained from observable market data for assets or liabilities either directly or indirectly.

In some cases, the Bank uses reference information of active markets for similar instruments and in others, it uses discounted cash flow techniques where all model variables and inputs are derived from observable market information.

Valuation techniques used to determine the fair values of Level 3

When “inputs“ are not available and are required to determine the fair value using a valuation model, the Bank relies on entities engaged in the valuation of exchange instruments or of the very same entities managing the asset or liability in question. The models used to determine fair value are usually through discounted cash flows or valuations employing historical market observations.

When the Bank uses or contracts third parties, who provide the pricing service to determine the fair values of the instruments, this control unit evaluates and documents the evidence obtained from these third parties that support the conclusion that said valuations comply with the requirements of the IFRS. This review includes:

- Verify that the price provider has been approved by the Bank;
- Obtain an understanding of how fair value has been determined and whether it reflects current market transactions.

7. Balances and transactions between related parties

Balance and transaction between related parties included in the consolidated financial statement are summarized as follows:

2017	Directors and management personnel	Related companies	Associated companies	Total
Assets				
Investments in other entities	-	-	5,194,143	5,194,143
Investments available for sale	-	-	15,591,919	15,591,919
Loans	6,516,672	53,329,110	-	59,845,782
Other assets	-	10,094	209,895	219,989
Liabilities				
Client deposits	16,161,901	49,140,570	63,755,454	129,057,925
Other liabilities	-	31,062	547	31,609
Income and expenses				
Interest income	258,008	2,017,075	1,310,871	3,585,954
Interest expenses	1,072,872	904,567	-	1,977,439
Commission income	-	128,749	2,562,416	2,691,165
Other income	-	-	1,124,334	1,124,334
Benefits for key Management personnel:				
Salaries and other wages	3,497,621	-	-	3,497,621

2016	Directors and management personnel	Related companies	Associated companies	Total
Assets				
Investment in other entities	-	-	3,159,340	3,159,340
Loans	6,140,848	39,772,123	-	45,912,971
Other assets	-	16,050	4,058,177	4,074,227
Liabilities				
Client deposits	6,212,857	48,490,592	36,542,001	91,245,450
Other liabilities	-	1,096,317	60,872	1,157,189
Income and expenses				
Interest income	205,587	1,694,802	204,701	2,105,090
Interest expenses	48,637	1,027,433	-	1,076,070
Commissions income		110,161	2,325,939	2,436,100
Benefits for key Management personnel:				
Benefits for key personnel	2,384,176	-	-	2,384,176

Loans to related companies during the year amounted to B/.53,329,110 (2016: B/.39,772,123), at interest rated ranging between 3.75% and 18% (June: between 3.75% and 18%); with multiple maturities until the year 2046.

Loans granted to directors and key management personnel during the year amounted to B/.6,516,672 (2016: B/.6,323,433), at interest rates ranging between 3.75% and 6.75% (June: between 3.75% and 18%) with multiple maturities until the year 2045.

Cash guaranteed loan balances to related companies add up to B/.40,126,554 (2016: B/.24,315,472) and mortgage guaranteed loan balances amounted to B/.15,669,806 (2016: B/.14,538,276).

Deposits of related companies during the year amounted to B/.112,896,024 (2016: B/.85,032,593), at interest rates between 0.05% and 8%; with multiple maturities until the year 2021 (June: 2019).

Deposits from directors and key management personnel during the year amounted to B/.16,161,901 (2016: B/.6,212,857), at interest rates between 0.05% and 3.5%; with multiple maturities until the year 2017 (June: 2016).

8. Cash and cash equivalents

	2017	2016
Cash	1,320,038	1,149,438
Demand deposits	110,723,181	119,690,073
Time deposits	14,782,762	53,831,918
Total cash and cash equivalents	126,825,981	174,671,429
Less:		
Demand deposits and restricted time deposits	33,929,378	35,291,339
Deposits over 90 days	2,210,948	-
Cash and cash equivalents for the purpose of the consolidated statement of cash flows	90,685,655	139,380,090

Restricted deposits amount to B/.1,453,000, of which B/.200,000 are held in Pershing LLC, required for the management of the investment portfolio, B/.200,000 in Banco BAC de Panamá, which guarantees the credit line and B/.1,053,000 in Euroclear Bank, required for custody and liquidation of stock transactions.

The subsidiary Grupo Prival Costa Rica, S.A., holds restricted deposits for B/.32,476,377, (2016: B/.33,838,339) corresponding to the legal reserve required by the local regulation thereof.

The average interest rate earned on time deposits is 0.981%, with several maturities up to May 21, 2018 (2016: 0.108% and maturities up to May 20, 2017).

9. Securities purchased under resale agreements

At June 30, 2017, the Bank had no balance of securities purchased under resale agreements, (2016: B/.8,809,931, which were secured by external debt bonds of the Government of Costa Rica and property deed in dollars, with an interest rate ranging between 2.74% and 4.5% y maturities in July 2016).

10. Investments in securities

	2017	2016
Trading	30,980,456	16,631,450
Available for sale	114,277,579	111,345,982
	145,258,035	127,977,432

10.1 Trading securities

	2017	2016
Securities traded on a market		
Governmental debt securities	10,720,693	3,214,763
Private debt securities	6,320,360	182,474
Mutual funds	4,551,547	1,662,094
Common shares	68,523	-
	21,661,123	5,059,331
Unlisted securities		
Mutual funds	9,319,333	11,572,119
	9,319,333	11,572,119
Total trading securities	30,980,456	16,631,450

Annual interest rates for trading securities are between 3% and 8% (2016: 1.49% and 6.25%) with multiple maturities up until 2032 (2016: 2025).

10.2 Available for sale securities

	2017	2016
Securities traded on a market		
Governmental debt securities	44,324,237	38,789,752
Private debt securities	29,885,922	64,157,185
Mutual funds	8,746,996	7,062,105
Common shares	519,336	78,778
	83,476,491	110,087,820
Unlisted securities		
Mutual funds	-	171,967
Common shares	15,209,173	1,086,195
Preferred shares	15,591,915	-
	30,801,088	1,258,162
Total available for sale securities	114,277,579	111,345,982

Annual interest rates on available-for-sale securities ranged from 0.51% and 10% (2016: between 0.46% and 11.50%).

11. Loans

Loans by type are detailed as follows:

	2017			2016		
	Internal	**External**	**Total**	**Internal**	**External**	**Total**
Consumer:						
Personal	20,892,809	5,229,427	26,122,236	9,925,238	6,418,020	16,343,258
Automobile	480,219	980,553	1,460,772	348,840	1,766,066	2,114,906
Overdrafts	10,809,326	-	10,809,326	10,736,656	-	10,736,656
Mortgage	17,968,655	10,516,210	28,484,865	16,759,396	10,453,548	27,212,944
Credit cards	1,034,964	995,652	2,030,616	949,631	1,314,125	2,263,756
Coporate:						
Services	52,641,468	22,569,520	75,210,988	46,908,243	59,851,387	106,759,630
Construction	58,403,577	43,413,827	101,817,404	61,940,880	57,219,153	119,160,033
Mining	1,256,373	-	1,256,373	1,536,438	-	1,536,438
Financial leasing	1,665	-	1,665	759,050	-	759,050
Industrial	7,112,145	20,921,032	28,033,177	2,376,230	15,110,239	17,486,469
Agricultural	3,600,600	4,496,702	8,097,302	3,619,200	5,534,651	9,153,851
Commercial	84,548,048	52,498,928	137,046,976	76,452,688	79,669,557	156,122,245
Financial services	15,230,053	63,901,203	79,131,256	11,245,947	13,443,126	24,689,073
Ports and railroads	-	802,555	802,555	-	5,596,575	5,596,575
Others	281,378	-	281,378	-	-	-
	274,261,280	226,325,609	500,586,889	243,558,437	256,376,447	499,934,884
Less:						
Allowance for possible loan losses	-	-	(2,312,637)	-	-	(1,748,965)
Discounted unearned interest and commissions	-	-	(1,454,688)	-	-	(1,822,594)
Total loans			496,819,564			496,363,325

The movement of the allowance for possible loan losses is detailed as follows:

	2017	**2016**
Balance at the beginning of the year	1,748,965	4,336,424
Allowance (reversal) charged to expenses	2,791,062	(1,401,005)
Written-off loans	(2,227,390)	(1,186,454)
Balance at year-end	2,312,637	1,748,965

The loan portfolio includes financial leases receivable whose maturity profiles are detailed below:

	2017	**2016**
Minimum payments of financial leases receivable:		
From 1 to 5 years	606,747	764,861
Balance at year-end	606,747	764,861

The interest rate of financial leases ranges between 5.61% and 7%.

12. Subsidiaries

The details of the company's subsidiaries as at June 30 are as follows:

Name of the subsidiary	Main activity	Place of incorporation and operations	Percentage of share participation and voting rights 2017	2016
Prival Securities, Inc.	Brokerage firm	Panama	100%	100%
Prival Leasing, S.A.	Financial leasing	Panama	100%	100%
Prival Trust, S.A.	Trustee	Panama	100%	100%
Grupo Prival (Costa Rica), S.A.	Banking	Costa Rica	100%	100%
Prival Private Equity Fund, S. A.	Mutual Funds	Panama	100%	0.80%

The investment in Prival Private Equity Fund, S.A. has been consolidated because the bank maintains control of the fund while its shares are sold to private investors.

13. Investments in other entities

As at June 30, investments in other entities are presented as follows:

Name	Activity	Country of incorporation	% of participation 2017	% of participation 2016	2017	2016
Acerta Holdings, S. A. (i)	Insurance company	Panama	36.38%	17.50%	5,069,143	2,984,340
Prival Bond Fund, S.A. (ii)	Mutual fund	Panama	-	-	25,000	25,000
Prival Multi Strategy Income and Growth Fund, S.A. (ii)	Mutual fund	Panama	-	-	25,000	25,000
Prival Mila Fund, S. A. (ii)	Mutual fund	Panama	-	-	25,000	25,000
Prival Private Equity Fund (ii)	Mutual fund	Panama	-	-	-	50,000
Prival Real Estate Fund (ii)	Mutual fund	Panama	-	-	50,000	50,000
					5,194,143	3,159,340

(i) The investment in Acerta Holdings, S.A. is accounted for using the equity method. In accordance with the share agreement, the Group holds 36% of the voting rights in shareholders' meetings. During the period ended June 30, 2017, Prival Bank, S.A. increased its participation in Acerta Holding, S.A. by acquiring the shares held by its holding company, Grupo Prival, S.A.

(ii) The Bank hold class "B" shares with voting rights and without dividend rights and therefore no participation is calculate for those funds in management.

Investments in other entities correspond to unlisted equity instruments, which are recognized at cost considering it is the most suitable estimate of the fair value of the instruments. Every year the Bank performs impairment assessments on these equity instruments to determine whether the cost is still the best estimate of their fair value.

A description of the main components of the financial statements of Acerta Holding, S.A. as at June 30, 2017, is detailed below:

	June 30, 2017
Total assets	45,562,340
Total liabilities	22,801,272
Total income	7,834,676
Total expenses	10,307,290
Net loss (profit)	(2,472,614)

14. Property, furniture, equipment and improvements

Property, furniture, equipment and improvements are detailed below:

2017	Initial balance	Additions	Decreases and reclassifications	Ending balance
Cost				
Land	592,356	-	-	592,356
Building	1,841,396	-	-	1,841,396
Furniture and fixtures	1,449,020	125,063	(34,602)	1,539,481
Office equipment	271,742	24,728	(137,835)	158,635
Communication equipment	263,171	31,370	(134,242)	160,299
Transportation equipment	423,872	60,603	(102,569)	381,906
Leasehold improvements	4,261,838	289,321	(773,375)	3,777,784
Construction in progress	174,213	-	(174,213)	-
Computer equipment	1,180,699	116,233	(125,135)	1,171,797
	10,458,307	647,318	(1,481,971)	9,623,654
Accumulated depreciation and amortization				
Building	61,055	30,039	-	91,094
Furniture and fixtures	700,222	200,015	(24,526)	875,711
Office equipment	196,202	36,762	(114,335)	118,629
Communication equipment	206,446	33,906	(131,871)	108,481
Transportation equipment	75,805	43,313	(42,794)	76,324
Leasehold improvements	1,456,539	560,186	(760,196)	1,256,529
Computer equipment	624,624	242,172	(92,991)	773,805
	3,320,893	1,146,393	(1,166,713)	3,300,573
Net value	7,137,414	(499,075)	(315,258)	6,323,081

2016	Initial balance	Additions	Decreases and reclassifications	Ending balance
Cost				
Land	592,356	-	-	592,356
Building	1,826,696	14,700	-	1,841,396
Furniture and fixtures	2,483,160	221,854	(1,255,994)	1,449,020
Office equipment	265,465	6,277	-	271,742
Communication equipment	227,008	36,163	-	263,171
Transportation equipment	395,259	86,429	(57,816)	423,872
Leasehold improvements	3,581,840	807,379	(127,381)	4,261,838
Construction in progress	19,498	571,385	(416,670)	174,213
Computer equipment	1,082,965	97,734	-	1,180,699
	10,474,247	1,841,921	(1,857,861)	10,458,307
Accumulated depreciation and amortization				
Building	19,078	41,977	-	61,055
Furniture and fixtures	972,200	152,981	(424,959)	700,222
Office equipment	143,402	52,800	-	196,202
Communication equipment	176,150	30,296	-	206,446
Transportation equipment	47,855	43,211	(15,261)	75,805
Leasehold improvements	1,099,408	484,512	(127,381)	1,456,539
Computer equipment	393,679	230,945	-	624,624
	2,851,772	1,036,722	(567,601)	3,320,893
Net value	7,622,475	805,199	(1,290,260)	7,137,414

15. Intangible assets and goodwill

	2017	2016
Intangible assets	3,937,208	4,399,452
Goodwill	7,935,579	7,935,579
	11,872,787	12,335,031

15.1 Intangible assets

2017	Initial balance	Additions	Decreases	Ending balance
Cost:				
Software and licenses	4,430,667	1,014,078	(166,044)	5,278,701
Deposit portfolio	2,790,000	-	-	2,790,000
Total	7,220,667	1,014,078	(166,044)	8,068,701
Accumulated amortization:				
Softwares	2,604,215	1,124,278	-	3,728,493
Deposit portfolio	217,000	186,000	-	403,000
	2,821,215	1,310,278	-	4,131,493
Net intangible assets	4,399,452	(296,200)	(166,044)	3,937,208

2016	Initial balance	Additions	Decreases	Ending balance
Cost:				
Software and licenses	3,385,235	1,661,233	(615,801)	4,430,667
Deposit portfolio	2,790,000	-	-	2,790,000
Total	6,175,235	1,661,233	(615,801)	7,220,667
Accumulated amortization:				
Softwares	1,741,439	862,776	-	2,604,215
Deposit portfolio	-	217,000	-	217,000
	1,741,439	1,079,776	-	2,821,215
Net intangible assets	4,433,796	581,457	(615,801)	4,399,452

15.2 Goodwill

The Bank's goodwill is presented as follows:

	2017	2016
Balance at the beginning of the year	7,935,579	7,172,809
Recognized additional amounts from joint ventures incurred during the year	-	762,770
	7,935,579	7,935,579

The following table summarizes the Bank's goodwill amount, generated by the acquisition of the following companies:

Company	Acquisition date	Acquired share	Total
Prival Bank Costa Rica, S.A. (Previously Bansol)	April 21, 2015	100%	4,552,453
Prival Securities, Inc	August 12, 2010	100%	3,383,126

There has been no movements in goodwill during the year.

For the purpose of testing for impairment of goodwill, the Bank annually performs a valuation of the various businesses acquired and which have generated such capital gains. The calculation of the valuation of capital gains was determined according to the estimated growth forecast for both businesses, using the cash flow method, based on the financial budgets approved by the Board of Directors covering a period of 5 years and using a discount rate of 15%.

Management makes the goodwill valuation of the acquired subsidiary, applying the method of discounted future cash flows based on the profitability of its operations.

To carry out the valuation of assets and businesses acquired, its expected the net flows in the corresponding cash generating unit for periods of 5 years and its growth in perpetuity or a multiple of flows were defined at the end of the flow projection period to estimate the terminal flow. The growth rates for the assets was set at 10% while the growth rate in perpetuity is 3%.

To determine the growth rates of businesses, it used as a growth reference, the historical performance and metrics, its future forecasts, as well as the Bank's business plans.

To calculate the present value of future cash flows and determine the value of the assets or businesses which are being assessed, the performance of free cash flows was used as the discount rate, required by the shareholder, when the evaluated cash generating unit is the Bank. Furthermore, a comparative calculation was made of the weighted average cost of the Bank's equity, but if it falls below the rate required by the shareholder, then the strictest one is used, being conservative. The capital cost used is 15%.

The key assumptions described above may change as economic and market conditions change. The Bank estimates that reasonably possible changes in these assumptions do not affect the recoverable amount of the cash generating unit or decrease below the carrying amount.

16. Other assets

	2017	2016
Project in progress (i)	5,333,297	2,516,583
Other assets held for sale (ii)	3,916,224	2,576,705
Commisiones receivable (iii)	3,647,154	3,435,881
Guarantee deposits	794,628	74,995
Other prepaid expenses	715,850	214,894
Other assets	643,224	352,175
Prepaid taxes	682,837	446,423
Severance fund	481,772	405,565
Accounts receivable	437,306	811,114
Prepaid insurance	70,642	106,462
Invoices receivable (iv)	-	4,058,177
	16,722,934	14,998,974

(i) The increase in the item line project in progress corresponds to the beginning of the change of the Banking Software.

(ii) As at June 30, the Bank holds real estate classified as other assets held for sale for the amount of B/.3,916,224 (2016: B/.2,576,705). These assets were a result of the execution of a loan guarantee and are registered at fair value based on a recent purchase offer and a valuation carried out by an independent expert.

(iii) Commissions and accounts receivable correspond mainly to brokerage services and structuring fees.

(iv) Invoices receivable have a maturity of 90 days, accruing an annual interest rate of 6.0%.

17. Client deposits

	2017	2016
Demand deposits	142,419,920	165,400,937
Savings deposits	164,247,195	171,646,356
Time deposits	338,467,045	304,023,113
Total	645,134,160	641,070,406

	2017	2016
Interbank deposits:		
Time	15,476,973	16,432,818

The average annual interest rate earned on deposits ranged between 0.10% and 8% (2016: 0.579% and 8.97%).

18. Securities sold under repurchase agreements

Prival Securities (Costa Rica) Puesto de Bolsa, S.A., held liabilities for securities sold under repurchase agreements which amounted to B/.3,011,445 (2016: B/.103,406), with maturity in July 2017 (2016: July 2016) and an annual interest rate between 2.400% and 3.450% (2016: 8%). These securities are guaranteed by monetary stabilization bonds 2020 and property deeds in USD for B/.3,726,825 (2016: B/.165,031).

Prival Bank (Costa Rica), S.A., held liabilities for securities sold under repurchase agreements which amounted to B/.3,419,806, with maturity in July 2017 and an annual interest rate between 2.706% and 3.06%. These securities are guaranteed by monetary stabilization bonds 2020, monetary stabilization bonds 2023 property deeds in USD for B/.4,310,000.

19. Financings received

Entity	Interest rate	Maturities	2017 Amount	2016 Amount
Banco Centroamericano de Integración Económica (BCIE)	5.55% and 6.15%	August 2020 and Sept. 2021	1,169,015	3,912,173
Banco de Costa Rica	6.00%	2020	1,056,971	7,490,014
Banco Central de Costa Rica	5.75%	2017	2,569,579	-
Banco Nacional de Costa Rica	5.45%	2016	-	353,263
Global Bank Panamá	5.50%	2018	-	1,077,489
Republic Bank Limited - Trinidad & Tobago	4.00%	2016	-	3,020,055
Republic Bank Limited - Trinidad & Tobago	4.00%	2017	-	2,000,222
Credit Suisse - England	3.22%	2019	-	20,826,804
Banco Nacional de Panamá	4.22%	2021	-	7,028,707
			4,795,565	45,708,727

Below are the guarantees for the financings received:

Banco Centroamericano de Integración Económica (BCIE): Global credit line for the financing of the Habitational and Urban Improvement Program, as well as the Micro, Small and Medium Financing Program, for a total amount of B/.6,050,000 of which it used B/.1,169,015. This credit facility guarantees are comprised of the general liability of Prival Bank (Costa Rica), S.A. and an agreement of a specific guarantee on its portfolio generated with own resources, rated as A in accordance with the rating criteria established by the Bank, at a ratio of at least 1,2 in assets and 1,0 in liabilities. The global credit line authorized is for B/.6,050,000. For this credit facility, as at June 30, guarantees for a total of B/.4,444,011 have been pledged as collateral, of which B/.1,686,532 correspond to the housing sector and B/.2,757,479 to working capital.

Banco de Costa Rica: It has a direct credit for working capital for B/.2,150,000 and two credit lines with Banco de Costa Rica for B/.6,000,000 and B/.4,761,149, of which B/.1,056,971 are being used from the direct credit. These credit facilities are guaranteed with a portfolio transfer of promissory notes to date classified as A and B in accordance with the rating criteria established by the Bank, covering 143% of the used balances, with a limit per client of 20% on the direct credit amount, a 10% on the credit line amount in dollars and a 12% on the credit line amount in colones. For these facilities, as at June 30, there are guarantees in portfolio transfer of promissory notes for a total amount of B/.12,964,471, of which B/.10,149,270 correspond to the credit line and B/.2,815,200 to direct credit.

Republic Bank Limited: As at June 30, 2017, it holds a credit line for working capital for a total of B/.3,000,000 which is available in its entirety. The guarantee of this facility is fiduciary.

Banco Central de Costa Rica ("BCCR"): Liability contracted through interbank market operations managed by BCCR, for an amount of B/.2,569,579. The guarantee of this credit facility is comprised of governmental debt securities.

The Bank has an approved credit line with BANESCO for an amount of B/.2,500,000 for the use of letters of credit. This line is not available to be rotated. In addition, it holds two stand-by letters of credit with BICSA of B/.150,000 and B/.100,000 whose issuer and beneficiary are MasterCard and VISA, respectively, as part of the guarantee required to be able to use the services they offer, which can be executed in case of a breach of contract.

As at June 30, annual interest rated earned on liabilities with entities ranged between 5.55% and 6.15% (2016: 3.22% and 5.50%) in United States dollars.

20. Bonds payable

As at June 30, the Bank holds bonds with Interclear, the Central Stock Exchange of Costa Rica, for an amount of B/.31,374,530 (2016: B/.48,450,834). The following is the balance of the bonds issued as at June 30:

Type	Interest rate	Maturity	2017	2016
Bansol 02003 y 02005	5.50%	2016	-	30,086,459
Bansol 02006	5.00%	2017	-	5,841,450
Prival 02007	5.98%	2018	12,431,566	12,522,925
Prival 02008	5.98%	2018	6,925,706	-
Prival 02009	5.43%	2018	5,038,496	-
Prival 02010	5.98%	2018	6,978,762	-
			31,374,530	48,450,834

20.1 Amount

The issuance program of standardized bonds BANSOL 2014 corresponds to a multi-currency program to raise necessary funds for working capital and to support the Bank's business growth, in which the maximum amount to be placed on its series cannot exceed the consolidated amount of B/.50,000,000, of which B/.24,348,000 have been issued, distributed in the following series:

- The series PRIVAL 02007 and PRIVAL 02008 accrue interest at an annual fixed interest rate equal to 5.98%, payable quarterly with maturity in June and October 2018, respectively.
- The series PRIVAL 02009 accrues interest an annual fixed interest rate equal to 5.43%, payable quarterly with maturity in May 2018.

The issuance program of standardized bonds 2016 corresponds to a multi-currency program to raise the necessary funds for working capital and to support the Bank's business growth, in which the maximum amount to be placed on its series cannot exceed the consolidated amount of B/.35,000,000, of which B/.15,000,000 have been issued, B/.6,935,000 of which has been issued in the series PRIVAL 02010, and B/.20,000,000 which have not yet been issued.

- The series PRIVAL 02010 accrues an annual fixed interest rate equal to 5.98%, payable quarterly with maturity in November 2018.

21. Other liabilities

	2017	2016
Accounts payable	3,687,222	961,919
Labor reserves	3,461,803	3,605,587
Cashier and certified checks	1,810,305	2,674,153
Taxes payable	1,238,353	838,317
Other reserves	790,481	567,234
Deferred income	253,611	242,631
Employer contributions payable	176,099	269,997
Employee discounts	25,525	23,020
Insurance payable	2,315	4,274
Dividends payable	-	1,072,500
	11,445,714	10,259,632

Accounts payable mostly correspond to temporary items cancelled in a short term.

22. Common shares

The Bank's capital of B/.25,000,000 is comprised of 25,000 common shares issued and outstanding with no par value.

According to the Minutes of the Board of Directors' Meeting held in December 2016, an additional capital contribution was authorized for B/.3,000,000 (2016: B/.2,000,000).

23. Interest income

As at June 30, interest income is detailed as follows:

	2017	2016
Investments	7,356,394	5,828,218
Loans	38,214,995	36,011,924
Deposits	131,114	64,306
Total	45,702,503	41,904,448

24. Revenue from brokerage services and structuring fees

Revenue from brokerage services and structuring fees for B/.13,420,755 (2016: B/.9,377,471) mainly relate to financial intermediation and investment structuring operations provided to its clients.

25. Assets under management

The Bank provides services for trust management contracts, which manages assets in accordance with customer instructions, held outside the consolidated statement of financial position on behalf of and at the risk of clients. The total managed portfolio of trust agreements amounted to B/. 660,788,604 (2016: B/.530,960,321).

The following presents the managed portfolio by type of contract:

	2017	2016
Investment trusts	4,528,164	7,783,166
Guarantee trusts	656,260,440	523,177,155
Total	660,788,604	530,960,321

In addition, the Bank held a managed investment portfolio at the clients' risk amounting to B/.2,151,855,164 (2016: B/.2,006,700,804). Considering the nature of these services, Management believes there is no risk to the Bank.

26. Commitments and contingencies

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

	2017	2016
Endorsements and guarantees	14,542,588	13,631,163
Unused credit lines granted	20,362,916	905,326
Promissory notes	4,465,987	3,668,479
	39,371,491	18,204,968

The endorsements, guarantees and credit lines are exposed to credit losses in the event that the customer does not fulfill its obligation to pay. The Bank's policies and procedures for approving credit commitments, financial guarantees and promissory notes are the same as those used for granting loans registered in the consolidated statement of financial position.

Guarantees granted have fixed maturity dates, which mostly mature without payment, and therefore pose no significant risk of liquidity.

The promissory notes are commitments in which the Bank agrees to make a payment once certain conditions are met, which have an average maturity of six months and are mainly used for disbursements of mortgage loans. The Bank does not anticipate losses as a result of these transactions.

The Board of Directors of Prival Bank, S.A., through a resolution dated September 10, 2015, authorized the issuance and public offering of a renewal program of one hundred thousand (100,000) corporate notes with a nominal value of one thousand dollars (B/. 1,000), guaranteed by the Bank's overall credit. The issuance was authorized by the Superintendency of Securities Market by means of Resolution SMV No.74-16 of February 15, 2016. The corporate notes have not been issued at the date of the consolidated financial statements.

The Bank maintains commitments with third parties arising from operating lease contracts, which mature on various dates over the next few years. The Bank does not have the option to purchase the land leased at the maturity date of the lease contracts.

The value of the annual lease fees for occupancy contracts for the coming years is as follows:

	2017	2016
Less than one year	104,818	52,282
Between one and five years	3,024,292	3,465,471
	3,129,110	3,517,753

During the year ended June 30, within the lease expense for B/.1,811,014 (2016: B/.1,463,910), property lease expenses were recorded for B/.975,819 (2016: B/.796,064).

In addition, the Bank has signed a contract for the development of new Banking Core. As of June 30, the Bank made prepayments registered as projects in progress and it has a duration of 10 years.

27. Income tax expense

Tax legislation of the Republic of Panama

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

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

Current income tax expense is detailed as follows:

	2017	2016
Current income tax	1,740,299	1,538,624
Deferred income tax from temporary differences	70,664	630,846
Adjustment of income tax of previous periods	(8,920)	-
Total income tax	1,802,043	2,169,470

The deferred tax item from temporary differences, arises mainly from the allowance for possible loan losses. The deferred asset is recognized based on the deductible tax differences considering their past operations and projected taxable income, influenced by Management's estimates.

Based on actual and projected results, the Bank's Management and its subsidiaries believe that there will be sufficient taxable profits to absorb the deferred taxes detailed above.

In Official Gazette No.26489-A, Law No.8 of March 15, 2010 was enacted, which modifies the general rates of Income Tax (ISR). For financial institutions, the current rate of 30% is maintained for the years 2010 and 2011, and subsequently, reduced to 27.5% as of January 1, 2012, and to 25% as of January 1, 2014. By means of Law No. 8 of March 15, 2010, the alternate calculation method of income tax called (CAIR) is eliminated and is replaced with the presumption of Income Tax, obliging all entities which earn income in excess of one million five hundred thousand dollars (B/.1,500,000) to determine the taxable amount for such tax, the greater amount between: (a) the net taxable income calculated by the standard method established in the Tax Code and (b) the net taxable income resulting from the application of four point sixty-seven percent (4.67%) to total taxable income.

Costa Rica Republic fiscal legislation

According to Law 7092 of Income Tax and its regulations, banks must file their annual income tax returns at a rate of 30%.

As at June 30, the deferred income tax is detailed as follows:

	2017			2016		
	Asset	**Liability**	**Net**	**Asset**	**Liability**	**Net**
Allowance for impairment of loan portfolio	6,399	(297,594)	(291,195)	6,399	(243,248)	(236,849)
Estimate for foreclosed assets	-	(113,620)	(113,620)	-	(38,755)	(38,755)
Recognition of pending deferred commissions from loan and contingency portfolio	167,738	-	167,738	150,082	-	150,082
Adjustments to fix assets at historical exchange rates	36,931	(524)	36,407	-	(4,414)	(4,414)
Deferred from investments - equity account	83,674	-	83,674	38,100	-	38,100
Revaluation of assets	-	(184,300)	(184,300)	-	(145,882)	(145,882)
Recognition of suspended interest	-	(69,367)	(69,367)	-	(68,438)	(68,438)
Reconognition of credit card interest	-	(967)	(967)	-	(1,526)	(1,526)
	294,742	(666,372)	(371,630)	194,581	(502,263)	(307,682)

The movement of deferred income tax recorded by the Bank is as follows:

	2017	**2016**
Balance at the beginning of the year	(307,682)	1,064,490
Acquired subsidiary balance	-	(762,770)
Included in equity		
Effects for unrealized losses/ gains from valuation of investments	6,716	21,445
Included in profit or loss		
Estimate of foreclosed assets	(74,865)	(44,017)
Effect on allowance for possible loan losses	(16,204)	(556,331)
Effect on reserve for foreclosed assets for sale	(20,485)	(48,120)
Effect of adjustments to fixed assets	40,156	37,208
Effect of recognition of interests	(929)	(38,641)
Effect of differences in loan and contingency portfolio	1,663	19,054
Balance at year-end	(371,630)	(307,682)

The deferred tax asset is recognized based on the deductible tax differences considering their past operations and projected taxable income, on which Management's estimates have an influence. Based on actual and projected results, the Bank's Management believes that there will be sufficient taxable income to absorb the deferred income tax detailed above.

As at June 30, income tax using the traditional method is presented below:

	2017	**2016**
Profit before income tax	10,781,290	10,171,076
Less: foreign, exempt and non-taxable income, net	(19,935,366)	(15,191,923)
Plus: non-deductible costs and expenses	15,882,364	10,653,525
Taxable base	6,728,288	5,632,678
Less: tax credit from carryforward losses	(1,428)	(2,889)
Net taxable income	6,726,860	5,629,789
Current income tax	1,740,299	1,538,624

The effective average rate of the estimated income tax for the year ended June 30 is 16% (2016: 15%).

On August 29, 2012, Law No.52 entered into force reforming regulations on the transfer pricing regime to regulate prices on transactions between related parties for tax purposes, so that the considerations between them are similar to those carried out between independent parties.

According to those rules, taxpayers carrying out transactions with related parties who have an impact on revenues, costs or deductions in determining the taxable base for income tax purposes of the tax period in which the operation is declared or takes place, must prepare an annual report on the operations performed within the six months following the termination of the corresponding tax period (Form 930). These transactions are subject to a review in order to verify that they meet the assumption contemplated in the Law. At the date of these consolidated financial statements, the Bank is in the process of completing said analysis; however, according to Management, it is not expected to have a significant impact on the estimated income tax for the period.

28. Segment of operations

As disclosed in Note 1, the Bank is engaged in the financial services business. The Bank does not provide services that requires being subjected to risk or performance of a different nature than those involved in banking, financial intermediation and other related services that may be disclosed by business segment and/ or geographical segments.

29. Main applicable laws and regulations

29.1. Banking Law in the Republic of Panama

In the Republic of Panama, banks are regulated by the Superintendency of Banks of Panama, through Executive Decree No.52 of April 30, 2008, adopting the single text of Decree Law No. 9 of February 26, 1998, as amended by Decree Law No.2 of February 22, 2008, and Resolutions and Agreements issued by that entity. The main aspects of this law include the following: Authorization of banking licenses, minimum capital requirements and liquidity, consolidated supervision, procedures for managing credit and market risks for the prevention of money laundering and intervention and bank settlement procedures, among others Similarly, banks are subject to at least one inspection every two (2) years by the auditors of the Superintendency of Banks of Panama to determine compliance with the provisions of Executive Decree No.52 of April 30, 2008 and Law No. 23 of April 27, 2015, the latter on the prevention of money laundering.

29.2. Regulations of the Republic of Costa Rica

In the Republic of Costa Rica, banks are regulated by the General Superintendency of Financial Institutions (SUGEF by its acronym in Spanish), through the Organic Law No.7558 of the Central Bank of Costa Rica of November 27, 1995. The main aspects of this law include the following: authorization of banking licenses, minimum capital requirements, monetary financial and exchange policies, liquidity, consolidated supervision, procedures for managing credit risk, prevention of money laundering and procedures for banking intervention and liquidation, among others.

In addition, the subsidiary must meet its liquidity ratio with SUGEF Agreement 24-00 and the minimum capital required by SUGEF.

According to Article No.154 of the Organic Law of the National Banking System, banks established in the Republic of Costa Rica, should allocate 10% of their net profit for the year for the creation of a special reserve.

29.3 Law for financial leases

Financial leasing operations in Panama are regulated by the Directorate of Financial Enterprises of the Ministry of Trade and Industry according to the legislation established in Law No. 7 of July 10, 1990.

29.4 Securities Law

The broker-dealer operations in Panama are regulated by the Superintendency of Securities Exchange of Panama according to the laws established in Decree Law No.1 of July 8, 1999, reformed by Law No. 67 of September 1, 2011.

Capital, solvency, capital funds, liquidity ratio and credit risk concentrations of securities stock exchanges are regulated based on Agreement No.4-2011 (Amended by Agreement No.8-2013 of September 18, 2013, and Agreement No.3-2015 of June 10, 2015), indicating they are required to meet the capital adequacy standards and their modalities.

29.5 Trust Law

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

Trust operations of the subsidiary in Costa Rica are regulated by the General Superintendency of Financial Institutions, according to the Commercial Code of Costa Rica in Chapter XII, Articles 63 to 66.

29.6 Liquidity ratio

The percentage of liquidity ratio reported by the Bank to the regulator, under the parameters of Agreement 4-2008, was 48.51% (2016: 51%).

29.7 Capital adequacy

The Law requires the general license banks to maintain a paid-in capital stock or minimum assigned capital of ten million (B/.10,000,000) and capital funds for not less than 8% of their weighted assets, including off-balance sheet operations. The Bank has consolidated capital funds of approximately 12.06% (2016: 13.13%) on its risk-weighted assets, based on the Agreement 5-2008 of the Superintendency of Banks of Panama.

The accounting treatment for the recognition of loan losses in accordance with the prudential regulations issued by the Superintendency of Banks of Panama, differs in some aspects from the accounting treatment in accordance with International Financial Reporting Standards, specifically IAS 39 and IFRS 5. The Superintendency of Banks of Panama requires general-licensed banks to apply these prudential standards and are recognized under the item of equity.

The components of regulatory capital are detailed below:

- *Primary capital* – It includes paid-in capital in shares and retained earnings. Paid-in capital in shares is represented by common shares fully paid. Retained earnings are the earnings of the year and undistributed profits from previous years.

Agreement 5-2008, as amended by Agreement 4-2009 and Agreement 1-2015 issued by the Superintendency of Banks sets forth the minimum required consolidated equity, the percentages required by type of capital which are effective as of January 1, 2016.

The capital ratios of the consolidated equity capital are detailed below:

	2017	2016
Primary capital (Tier 1)		
Common shares	25,000,000	25,000,000
Excess paid-in capital	35,000,000	32,000,000
Accumulated profit	23,612,555	17,295,130
Regulatory reserve - dynamic	9,664,977	8,113,503
Goodwill	(7,935,379)	(7,935,579)
Deferred tax asset	(294,742)	-
Participation in insurance entities	(15,486,000)	-
Intangible assets	(3,937,208)	-
Other items of comprehensive income	155,131	-
Total	65,779,334	74,473,054
Total regulatory capital	65,779,334	74,473,054
Risk-weighted assets	545,167,251	567,087,044
Capital ratios		
Minimum adequacy percentage	8%	8%
Total regulatory capital express as a percentage of risk-weighted assets	12.07%	13.13%
Total Tier 1 expressed as a percentage of risk-weighted assets	12.07%	13.13%

The Superintendency of Securities Market of Panama and the Panama Stock Exchange requires Brokerage and Stock Exchange Firms to hold adequate capital funds, with a minimum solvency ratio of 8% and liquidity ratio of at least 10%, according to the text approved in Agreement 4-2011, amended by Agreement 8-2013 of the Superintendency of Securities Exchange of Panama issued on September 18, 2013. As at June 30, the equity funds for Prival Securities were of B/.17,765,905 (2016: B/.15,532,745) and the solvency ratio was 1,375.02% (2016: 957%). The liquidity ratio was 14,389.57% (2016: 16,813.69%).

The General Superintendency of Securities Market of Costa Rica requires that Stock Exchange Firms must have a necessary capital base to cover the risks incurred when carrying out its operations, with a maximum solvency ratio of 100%, according to the text approved in the Risk Management Regulations of the General Superintendency of Securities Market of Costa Rica (SUGEVAL), published in the Official Gazette Newspaper No.41 of February 27, 2009- As at June 30, the Equity Sufficiency of Prival Securities Costa Rica was of 38.94%. (2016: 17.87%).

The General Superintendency of Securities Market of Costa Rica requires that Investment Fund Management companies must have a necessary capital base to cover the risks incurred when carrying out its operations, with a maximum solvency ratio of 100%, according to the text approved in the Risk Management Regulations of the General Superintendency of Securities Market of Costa Rica (SUGEVAL), published in the Official Gazette Newspaper No.41 of February 27, 2009- As at June 30, the Equity Sufficiency of Sociedad Administradora de Fondos de Inversión (SAFI) was of 43.29%. (2016: N/A).

Considering that SAFI started operations in October 2016, it, therefore, does not have a solvency ratio for June 2016.

29.8 Agreement 1-2015

Agreement 1-2015 applicable to banks and banking groups was issued by the Superintendency of Banks of Panama and amended by Agreement 13-2015. Capital Adequacy Standards and the minimum consolidated equity requirement are established. The purpose of the Agreement is to update the regulatory framework for capital requirements in line with international standards. However, effective as of January 1, 2016, compliance with the minimum values of capital adequacy ratios will be subject to the following schedule, taking January 1st every year as the compliance date.

Capital Classification	**2016**	**2017**	**2018**	**2019**
Ordinary primary capital	3.75%	4%	4.25%	4.5%
Primary capital	5.25%	5.5%	5.75%	6%
Total capital	8%	8%	8%	8%

29.9 Regulatory reserves

The Superintendency of Banks of Panama requires that banks with general licenses apply these prudential standards.

29.9.1 <u>Loan and loan reserves</u>

29.9.1.1 Specific reserves

They are defined as reserves originating from objective and concrete impairment evidence. They are created on credit facilities in the categories of special mention, sub-normal, doubtful or uncollectible, both for individual credit facilities as well for a group of these. In a case of a group, it corresponds to circumstances indicating the existence of impairment in the credit quality, although an individual identification is not yet possible.

<u>Calculation basis</u>

The calculation is made based on the following weight table and it is the difference between the amount of the classified credit facility of the above mentioned categories, and the present value of the guarantee to mitigate the potential loss. If the difference is negative, the result is zero.

Loan category	**Weight**
Special mention	20%
Subnormal	50%
Doubtful	80%
Uncollectible	100%

Accounting treatment

In the event there is an excess of specific provision on the provision under IFRS, this excess is accounted for in a regulatory reserve in equity affecting retained earnings. The regulatory reservation will not be considered as capital funds for calculating certain ratios and any other prudential ratio.

The table below summarizes the classification of the loan portfolio and loan loss reserves of the Bank:

2017	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	411,902,470	13,401,510	3,457,625	1,189,953	1,727,516	431,679,074
Consumer loans	64,557,469	3,342,548	455,906	120,059	431,833	68,907,815
Total	476,459,939	16,744,058	3,913,531	1,310,012	2,159,349	500,586,889
Specific reserve	4,705	674,417	330,083	234,701	664,998	1,908,904

2016	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	409,092,481	26,565,217	2,926,376	1,946,025	733,265	441,263,364
Consumer loans	55,609,794	1,451,243	269,163	339,618	1,001,702	58,671,520
Total	464,702,275	28,016,460	3,195,539	2,285,643	1,734,967	499,934,884
Specific reserve	-	1,244,542	223,024	596,183	437,422	2,501,171

Agreement 4-2013 defines as delinquent credit facility those presenting unpaid contractual amounts with a duration of more than 30 days and up to 90 days from the date set for compliance of payments; and as matured those whose nonpayment presents more than 90 days. Operations with a single payment at maturity and overdrafts are considered past due when aging from the lack of payment exceeds 30 days.

As at June 30, the classification of the loan portfolio by maturity profile of the Bank is presented below:

	2017				2016			
	Current	Delinquent	Overdue	Total	Current	Delinquent	Overdue	Total
Corporate loans	427,890,994	1,180,557	2,607,523	431,679,074	438,204,661	494,691	2,564,012	441,263,364
Consumer loans	67,837,865	586,691	483,259	68,907,815	57,186,273	369,219	1,116,028	58,671,520
Total	495,728,859	1,767,248	3,090,782	500,586,889	495,390,934	863,910	3,680,040	499,934,884

On the other hand, based on Article 30 of Agreement 8-2014 (amending certain articles of Agreement 4-2013), the recognition of interest in revenue is suspended when the deterioration in the financial condition of the client is determined based on days late in paying principal and/or interest and the type of credit transaction according to the following:

a) More than 90 days for corporate, consumer and mortgage-backed personal loans;

b) More than 120 days for residential mortgage loans.

Total Bank loans that do not accrue interest amounts to B/.75,452 (2016: B/.145,361). Total unrecognized interest on income from loans is of B/.1,571 (2016: B/.12,746).

29.9.1.2 Dynamic reserves

Agreement No.4-2013 indicates that the dynamic reserve is a reserve established to meet possible future needs for creating specific reserves, which is governed by prudential criteria of the banking regulation. The dynamic reserve is established on a quarterly basis of credit facilities classified in the normal category.

The dynamic reserve is an equity item that is presented under the regulatory reserve item in the consolidated statement of changes in equity and takes the retained earnings as its own. The creditor balance of this dynamic reserve is part of the regulatory capital but does not replace or compensate the requirements at a minimum capital adequacy rate established by the Superintendency. The balance of the Bank's dynamic reserve as at June 30 is B/.9,664,977 (2016: B/.8,113,503).

With the current Agreement, a dynamic reserve is established which shall not be less than 1.25%, or greater than 2.50% of risk-weighted assets related to credit facilities classified as normal.

For the purpose of the dynamic reserves of *Prival Bank, S. A., Prival Securities, Inc.* and *Prival Leasing, S. A.*, we present the details below:

	2017	2016
Component 1		
By Alpha coefficient (1.50%)	3,210,704	2,866,322
Component 2		
Quarterly variation by Beta coefficient (5.00%)	9,327	38
Component 3		
Positive quarterly variation for specific reserves	(2,204,010)	(138,614)
Total dynamic reserve by components	5,424,041	2,727,746
Total dynamic reserve corresponding to 2.00% or risk-weighted assets within the normal category	5,360,309	3,808,835

For the purpose of the dynamic reserve of *Grupo Prival Costa Rica, S. A.*, we present the details below:

	2017	2016
Component 1		
By Alpha coefficient (1.50%)	2,331,036	2,748,975
Component 2		
Quarterly variation by Beta coefficient (5.00%)	-	998,103
Component 3		
Positive quarterly variation for specific reserves	(658,389)	(557,590)
Total dynamic reserve by components	2,989,425	3,189,488
Total dynamic reserve corresponding to 2.25% of the risk-weighted assets within the normal category	4,304,668	4,304,668
Total dynamic reserve	9,664,977	8,113,503

29.9.1.3 *Accounting treatment for differences between prudential standards and IFRSs*

The accounting treatment of the differences between prudential standards and IFRSs according to the General Board Resolution SBP-GJD-0003-2013 states that when the Bank identifies differences between the application of IFRSs and prudential regulations issued by the SBP, the following methodology will be applied:

- Calculations shall be made on how account balances would result by applying IFRSs and prudential regulations issued by the Superintendency of Banks of Panama and the respective figures will be compared.
- When the calculation made in accordance with IFRSs results in a greater reserve or provision for the Bank than that resulting from the use of prudential standards, the Bank will account the IFRS figures.
- When the impact of using prudential rules results in a larger reserve or provision for the Group, the effect of using IFRS shall also be recorded in profit or loss and will appropriate the difference between the IFRS and prudential calculation from the retained earnings, which will be transferred to a regulatory reserve in equity. In the event that the Bank does not have sufficient retained earnings, the difference will be presented as an accumulated deficit account.
- The regulatory reserve mentioned in the previous point cannot be reversed against retained earnings while there are differences between IFRS and prudential standards that originated it.

As at June 30, the specific IFRS provision is of B/.178,166 and the regulatory provision is of B/.537,752, the excess regulatory provision is of B/.280,291 (2016: B/.35,576) which is registered in the regulatory reserve under the equity line item.

29.10 Disposal of acquired real estate

For regulatory purposes, the Superintendency establishes five (5) years, counting from the registration date in the Public Registry, as the term to sell real estate acquired as payment of uncollectible loans. If, at the end of this period, the Bank has not sold the acquired real estate, it must make an independent appraisal of the property to establish whether its value has decreased, applying in that case the dispositions in the IFRSs.

Similarly, the Bank must create a reserve in the equity account, by appropriating in the following order: (a) its retained earnings, (b) profits for the period, to which the following transfers will be made for the value of the foreclosed assets:

Year	Percentage
First year	10%
Second year	20%
Third year	35%
Fourth year	15%
Fifth year	10%

The aforementioned reserves will be kept until the effective transfer of the acquired asset has been made and, such reserve will not be considered as a regulatory reserve for the purpose of calculating the equity ratio.

As at June 30, 2017, *Prival Bank, S.A.* does not have acquired real estate as payment for uncollectible loans.

29.11 Off-balance sheet operations

The Bank has made the off-balance sheet operations and reserves classification required as at June 30, based on Agreement No.4-2013 and Agreement No.6-2002 , respectively, issued by the Superintendency of Banks as shown below:

2017	**Normal**	**Special Mention**	**Subnormal**	**Doubtful**	**Uncollectible**	**Total**
Endorsement and guarantees	14,431,508	32,127	47,653	31,300	-	14,542,588
Unused credit lines granted	20,362,916	-	-	-	-	20,362,916
Promissory notes	4,465,987	-	-	-	-	4,465,987
Total	39,260,411	32,127	47,653	31,300	-	39,371,491
Reserve required based on the estimated net loss	-	1,285	23,826	12,565	-	37,676

2016	**Normal**	**Special Mention**	**Subnormal**	**Doubtful**	**Uncollectible**	**Total**
Endorsement and guarantees	13,473,996	44,791	35,300	77,076	-	13,631,163
Unused credit lines granted	905,346	-	-	-	-	905,346
Promissory notes	3,668,479	-	-	-	-	3,668,479
Total	18,047,821	44,791	35,300	77,076	-	18,204,988
Reserve required based on the estimated net loss	-	13,702	13,578	49,290	-	76,570

Issued guarantees and promissory notes are exposed to credit losses in the event that the client does not fulfill its obligation to pay. The Bank’s policies and procedures for approving credit commitments, financial guarantees and promissory notes are the same as those used for granting loans recorded in the consolidated statement of financial position

Unused credit lines granted correspond to loans guaranteed pending disbursement, which are not shown in the consolidated statement of financial position, but are registered in the Bank’s memorandum accounts.

30. Reclassification

The figures of the 2016 consolidated financial statements were reclassified to standardize the 2017 presentation. An extract of the reclassified accounts is shown below:

Consolidates statement of financial position	**As was previously reported**	**Reclassification**	**Reclassified**
Interbank deposits	-	16,432,818	16,432,818
Client deposits	657,503,224	641,070,406	(16,432,818)

31. Subsequent events

The Bank has assessed subsequent events as of June 30, 2017, to evaluate the need for possible recognition or disclosure in the accompanying consolidated financial statements. Such events were assessed up until September 7, 2017, the date in which these consolidated financial statement were made available for issuance. On the basis of this assessment, was determined that no subsequent event occurred which would require recognition or disclosure in the consolidated financial statements.

32. Approval of the consolidated financial statements

The consolidated financial statements of Prival Bank, S.A. and subsidiaries for the year ended June 30, 2017, were authorized by the General Management and approved by the Board of Directors for their issuance on September 7, 2017.

* * * * * *

Prival Bank, S.A. and subsidiaries **Appendix I**
(A wholly-owned subsidiary of Grupo Prival, S.A.)

Consolidating information on the statement of financial position
at June 30, 2017
(In balboas)

	Total consolidated	Disposals Debits	Disposals Credits	Sub-total	Prival Bank, S.A.	Prival Securities, Inc.	Prival Leasing, Inc.	Prival Trust, S.A.	Prival Private Equity Fund, S. A.	Grupo Prival Costa Rica, S.A.
Assets										
Cash and cash equivalents	126,825,981	-	17,538,357	144,364,338	85,997,902	16,975,566	95,827	569,054	1,614,966	39,111,023
Securities purchased under resale agreements	-			-	-	-	-	-	-	-
Investment in securities	145,258,035	-	8,806,730	154,064,765	108,775,975	98,423	-	-	7,419,570	37,770,797
Loans	496,819,564	-	15,796,126	512,615,690	327,288,343	287,810	606,747	-	-	184,432,790
Investment in associates	5,194,143	-	53,892,471	59,086,614	58,911,614	175,000	-	-	-	-
Furniture, equipment and improvements	6,323,081	-	-	6,323,081	2,665,564	-	-	-	-	3,657,517
Intangible assets and goodwill	11,872,787	-	-	11,872,787	211,803	3,528,349	-	-	-	8,132,635
Deferred income tax	294,742	-	-	294,742	44,541	-	-	-	-	250,201
Other assets	16,722,934	41,602	5,954,062	22,635,394	15,613,934	1,303,751	1,517	73,579	15,456	5,627,157
Total assets	809,311,267	41,602	101,987,746	911,257,411	599,509,676	22,368,899	704,091	642,633	9,049,992	278,982,120
Liabilities and equity										
Liabilities										
Client deposits	645,134,160	17,538,357	-	662,672,517	499,460,313	-	-	-	-	163,212,204
Interbank deposits	15,476,973	-	-	15,476,973	15,476,973	-	-	-	-	-
Securities sold under repurchase agreements	6,431,251	-	-	6,431,251	-	-	-	-	-	6,431,251
Borrowed funds	4,795,565	15,796,126	-	20,591,691	-	-	594,860	-	-	19,996,831
Bonds payable	31,374,530	-	-	31,374,530	-	-	-	-	-	31,374,530
Deferred income tax	666,372	-	-	666,372	-	-	-	-	-	666,372
Other liabilities	11,445,714	5,954,062	-	17,399,776	9,338,894	106,089	-	117,313	7,247	7,830,233
Total liabilities	715,324,565	39,288,545	-	754,613,110	524,276,180	106,089	594,860	117,313	7,247	229,511,421
Equity										
Common shares	25,000,000	61,782,140	-	86,782,140	25,000,000	5,300,000	100,000	100,000	8,939,206	47,342,934
Additional paid-in capital	35,000,000	100,000	-	35,100,000	35,000,000	-	-	-	-	100,000
Regulatory reserve	10,219,016	-	-	10,219,016	5,868,447	12,382	33,519	-	-	4,304,668
Net changes in securities available for sale	155,131	-	-	155,131	159,262	74,255	-	-	-	(78,386)
Retained earnings	23,612,555	5,569,841	4,794,382	24,388,014	9,205,787	16,876,173	(24,288)	425,320	103,539	(2,198,517)
Total equity	93,986,702	67,451,981	4,794,382	156,644,301	75,233,496	22,262,810	109,231	525,320	9,042,745	49,470,699
Total liabilities and equity	809,311,267	106,782,128	106,782,128	911,257,411	599,509,676	22,368,899	704,091	642,633	9,049,992	278,982,120

See the accompanying independent auditors' report.

Prival Bank, S.A. and subsidiaries
(A wholly-owned subsidiary of Grupo Prival, S.A.)

Consolidating information on the statement of profit or loss and other comprehensive income
For the year ended June 30, 2017
(In balboas)

	Total consolidated	Disposals Debits	Disposals Credits	Sub-total	Prival Bank, S.A.	Prival Securities, Inc.	Prival Leasing, Inc.	Prival Trust, S.A.	Prival Private Equity Fund, S. A.	Grupo Prival Costa Rica, S.A.
Interest income	45,702,503	1,996,584	-	47,699,087	25,287,153	108,521	46,163	-	1,270,206	20,987,044
Interest expenses	(22,714,322)	-	962,636	(23,676,958)	(12,347,843)	155	(28,071)	-	-	(11,301,199)
Net financial income	22,988,181	1,996,584	962,636	24,022,129	12,939,310	108,676	18,092	-	1,270,206	9,685,845
Commission income	2,037,838	-	-	2,037,838	1,115,886	23,615	46	-	-	898,291
Brokerage services and structuring fees	13,420,755	33,719	-	13,454,474	2,146,344	7,472,504	-	295,130	-	3,540,496
Commission expenses	(2,208,760)	-	33,719	(2,242,479)	(419,274)	(1,453,776)	-	-	-	(369,429)
Net gain from commissions,	-			-						
brokerage services and structuring fees	13,249,833	33,719	33,719	13,249,833	2,842,956	6,042,343	46	295,130	-	4,069,358
Realized gain in trading securities	404,878	-	-	404,878	404,878	-	-	-	-	-
Unrealized gain in trading securities	97,349	-	-	97,349	97,349	-	-	-	-	-
Realized gain in securities available for sale	736,899	-	-	736,899	533,911	-	-	-	-	202,988
Income from ordinary activities	37,477,140	2,030,304	996,356	38,511,088	16,818,404	6,151,019	18,138	295,130	1,270,206	13,958,191
Other income	2,061,705	2,640,000	-	4,701,705	4,258,873	5,362	-	-	-	437,470
Allowance for possible loan losses	(2,791,062)	-	-	(2,791,062)	(152,571)	-	-	-	-	(2,638,491)
Allowance for possible losses from assets available for sale	(28,208)	-	-	(28,208)	-	-	-	-	-	(28,208)
Salaries and employee benefits	(14,514,735)	-	-	(14,514,735)	(7,791,867)	-	-	-	-	(6,722,868)
Depreciation and amortization	(2,456,671)	-	-	(2,456,671)	(988,079)	(269,845)	-	-	-	(1,198,747)
Others	(8,966,880)	-	2,640,000	(11,606,880)	(5,168,974)	(3,101,708)	(14,682)	(201,798)	(8,641)	(3,111,077)
Profit before income tax	10,781,289	4,670,304	3,636,356	11,815,237	6,975,786	2,784,828	3,456	93,332	1,261,565	696,270
Income tax	(1,802,043)	-	-	(1,802,043)	(885,525)	(432,374)	(512)	(23,335)	-	(460,297)
Participation in net loss in associate	(899,537)	899,537	-	-	-		-	-	-	-
Net profit	8,079,709	5,569,841	3,636,356	10,013,194	6,090,261	2,352,454	2,944	69,997	1,261,565	235,973

See the accompanying independent auditors' report.

Prival Bank, S.A. and subsidiaries **Appendix III**
(A wholly-owned subsidiary of Grupo Prival, S.A.)

Consolidating information on the statement of changes in equity
For the year ended June 30, 2017
(In balboas)

	Total consolidated	Disposals Debits	Disposals Credits	Sub-total	Prival Bank, S.A.	Prival Securities, Inc.	Prival Leasing, Inc.	Prival Trust, S.A.	Prival Private Equity Fund, S. A.	Grupo Prival Costa Rica, S.A.
Common shares										
Balance at the beginning of the year	25,000,000	52,842,934	-	77,842,934	25,000,000	5,300,000	100,000	100,000	-	47,342,934
Acquired subsidiary balance	-	8,939,206	-	8,939,206	-	-	-	-	8,939,206	-
Balance at year-end	25,000,000	61,782,140	-	86,782,140	25,000,000	5,300,000	100,000	100,000	8,939,206	47,342,934
Additional paid-in capital										
Excess paid-in capital and balance at year-end	32,000,000	100,000	-	32,100,000	32,000,000	-	-	-	-	100,000
Net change for the year	3,000,000	-	-	3,000,000	3,000,000	-	-	-	-	-
Balance at year-end	35,000,000	100,000	-	35,100,000	35,000,000	-	-	-	-	100,000
Regulatory reserve										
Balance at the beginning of the year	9,127,194	-	-	9,127,194	4,072,090	14,437	19,368	-	-	5,021,299
Net changes in the year	1,091,822	-	-	1,091,822	1,796,357	(2,055)	14,151	-	-	(716,631)
Balance at year-end	10,219,016	-	-	10,219,016	5,868,447	12,382	33,519	-	-	4,304,668
Net changes on investments in securities available for sale										
Balance at the beginning of the year	(302,953)	-	-	(302,953)	(276,795)	54,611	-	-	-	(80,769)
Net changes in securities	458,084	-	-	458,084	436,057	19,644	-	-	-	2,383
Balance at year- end	155,131	-	-	155,131	159,262	74,255	-	-	-	(78,386)
Retained earnings										
Balance at the beginning of the year	17,295,130	-	-	17,295,130	5,456,264	14,640,977	(12,886)	361,896	-	(3,151,121)
Acquired subsidiary balance	-		124,078	(124,078)					(124,078)	
Profit for the year	8,079,709	5,569,841	3,636,356	10,013,194	6,090,261	2,352,454	2,944	69,997	1,261,565	235,973
Complementary tax	(100,462)	-	-	(100,462)	25,619	(119,313)	(195)	(6,573)	-	-
Declared dividends	(570,000)	-	1,033,948	(1,603,948)	(570,000)	-	-	-	(1,033,948)	-
Regulatory reserve	(1,091,822)	-	-	(1,091,822)	(1,796,357)	2,055	(14,151)	-	-	716,631
Balance at year-end	23,612,555	5,569,841	4,794,382	24,388,014	9,205,787	16,876,173	(24,288)	425,320	103,539	(2,198,517)
Total equity										
Balance at the beginning of the year	83,119,371	52,942,934	-	136,062,305	66,251,559	20,010,025	106,482	461,896	-	49,232,343
Acquired subsidiary balance	-	8,939,206	124,078	8,815,128	-	-	-	-	8,815,128	-
Excess paid-in capital	3,000,000	-	-	3,000,000	3,000,000	-	-	-	-	-
Profit for the year	8,079,709	5,569,841	3,636,356	10,013,194	6,090,261	2,352,454	2,944	69,997	1,261,565	235,973
Complementary tax	(100,462)	-	-	(100,462)	25,619	(119,313)	-	-	-	-
Declared dividends	(570,000)	-	1,033,948	(1,603,948)	(570,000)	-	-	-	(1,033,948)	-
Net changes in securities available for sale	458,084	-	-	458,084	436,057	19,644	-	-	-	2,383
Balance at year-end	93,986,702	67,451,981	4,794,382	156,644,301	75,233,496	22,262,810	109,426	531,893	9,042,745	49,470,699

See the accompanying independent auditors' report.