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, 2016 and Independent Auditors' Report dated September 8, 2016

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

Independent Auditors' Report and 2016 Consolidated Financial Statements

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FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of **Prival Bank, S.A. and subsidiaries** which comprise the consolidated statement of financial position as at June 30, 2016, and the consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of consolidated the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Prival Bank, S.A. and subsidiaries** as at June 30, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte.

Complementary information

Our audit was conducted for the purpose of expressing an opinion on the consolidated financial statements taken as a whole. The complementary information included in Annexes I, II and III is presented for the purpose of further analysis of the consolidated financial statements and not to present the financial position or results of operations of the individual companies. Such complementary information referred to in this report has been subject to the auditing procedures that are applied in the audit of the consolidated financial statements and these are reasonably presented in all material respects, related to the consolidated financial statements taken as a whole.

Deloitte signed

September 8, 2016
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, 2016
(In balboas)

	Notes	2016	2015
Assets			
Cash and cash equivalents	7, 8	174,671,429	128,429,931
Securities purchased under resale agreements	9	8,809,931	-
Investment securities	10	127,977,432	119,653,193
Loans	7, 11	496,363,325	407,225,613
Investment in associates	12	3,159,340	2,612,500
Property, furniture, equipment and improvements	13	7,137,414	7,622,475
Intangible assets and goodwill	14	12,335,031	11,606,605
Deferred income tax	26	194,581	1,248,865
Other assets	15	14,998,974	13,711,931
Total assets		845,647,457	692,111,113
Liabilities and equity			
Liabilities			
Clients deposits	7, 16	657,503,224	564,676,726
Securities sold under repurchase agreements	17	103,406	-
Financings received	18	45,708,727	16,799,198
Bonds payable	19	48,450,834	25,872,091
Deferred income tax	26	502,263	184,375
Other liabilities	20	10,259,632	9,774,310
Total liabilities		762,528,086	617,306,700
Equity			
Common shares	21	25,000,000	25,000,000
Additional paid-in capital		32,000,000	30,000,000
Regulatory reserve		9,127,194	5,871,164
Net changes in securities available for sale		(302,953)	(215,267)
Retained earnings		17,295,130	14,148,516
Total equity		83,119,371	74,804,413
Total liabilities and equity		845,647,457	692,111,113

The accompanying notes are an integral part of these 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, 2016
(In balboas)

	Notes	2016	2015
Interest income	22	41,904,448	21,731,533
Interest expenses		(19,138,008)	(9,842,189)
Net financial income		22,766,440	11,889,344
Commission income		2,706,080	1,178,764
Brokerage service and structuring	23	9,377,471	11,758,829
Commission expenses		(2,121,757)	(1,516,088)
Net income from commissions, brokerage services and structuring		9,961,794	11,421,505
Gain realized on trading securities		271,870	1,136,337
Gain (loss) unrealized on trading securities		33,093	(803,483)
Gain realized on securities available for sale		597,547	507,063
Income from ordinary activities		33,630,744	24,150,766
Other income		495,823	613,567
Reversion (provision) for uncollectible loans	11	1,401,005	(288,388)
Provision for loss of available-for-sale assets		(845,930)	-
Salaries and employee benefits		(14,494,765)	(8,352,746)
Depreciation and amortization		(2,116,498)	(2,207,653)
Others		(7,899,303)	(5,188,842)
Profit before income tax		10,171,076	8,726,704
Income tax expense	26	(2,169,470)	(1,034,204)
Profit of the year		8,001,606	7,692,500
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Net gain realized on securities available for sale transferred to profit or loss		(597,547)	(507,063)
Unrealized (gain) loss, net		509,861	(407,542)
Net change in securities available for sale		(87,686)	(914,605)
Total comprehensive income		7,913,920	6,777,895

The accompanying notes are an integral part of these 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, 2016
(In balboas)

	Common shares	Additional paid-in capital	Regulatory reserve	Net changes in investments of securities available for sale	Retained Earnings	Total
Balance at June 30, 2014	25,000,000	-	1,717,477	699,338	12,166,599	39,583,414
Profit of the year	-	-	-	-	7,692,500	7,692,500
Other comprehensive income (expenses):						
Net changes in fair value of investments in securities available for sale	-	-	-	(914,605)	-	(914,605)
Total comprehensive income	-	-	-	(914,605)	7,692,500	6,777,895
Oher equity transactions:						
Regulatory reserve	-	-	4,153,687	-	(4,153,687)	-
Transactions attributable to the shareholder registered directly in equity:						
Additional paid-in capital	-	30,000,000	-	-	-	30,000,000
Complementary tax	-	-	-	-	(126,896)	(126,896)
Dividends declared	-	-	-	-	(1,430,000)	(1,430,000)
Balance at June 30, 2015	25,000,000	30,000,000	5,871,164	(215,267)	14,148,516	74,804,413
Profit of the year	-	-	-	-	8,001,606	8,001,606
Net changes in 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 the shareholder:						
Capital contribution	-	2,000,000	-	-	-	2,000,000
Complementary tax	-	-	-	-	(168,962)	(168,962)
Dividends declared	-	-	-	-	(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

The accompanying notes are an integral part of these 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, 2016
(In balboas)

	Notes	2016	2015
Cash flows from operating activities:			
Profit for the year		8,001,606	7,692,500
(Reversal) provision for possible loan losses	11	(1,401,005)	288,388
Adjustments for changes in fair value of other assets held to maturity		58,804	648,990
Depreciation and amortization	13, 14	2,116,498	2,207,653
Income tax expense	26	2,169,470	1,034,204
Realized gain on trading securities		(271,870)	(1,136,337)
Unrealized gain (loss) on trading securities		(33,093)	803,483
Net gain realized on securities available for sale		(597,547)	(507,063)
Interest income		(41,904,448)	(21,731,533)
Interest expense		19,138,008	9,842,189
Net changes in operating assets and liabilities:			
(Increase) decrease in trading securities		(9,077,746)	35,054,162
Increase in loans		(87,482,364)	(55,472,947)
Increase in other assets		(1,916,800)	(5,542,331)
Increase in demand deposits		92,946,085	56,314,445
Decrease in other liabilities		294,405	(4,762,082)
Income tax paid		(1,347,710)	(825,119)
Interest received		41,341,754	21,540,524
Interest paid		(19,082,274)	(9,797,409)
Net cash from operating activities		2,951,773	35,651,717
Cash flow from investing activities:			
Net cash received on acquisition of subsidiary		-	5,283,479
Increase in demand and restricted time deposits		(4,283,719)	(29,654,620)
Purchase of securities available for sale		(34,507,620)	(70,383,754)
Proceeds from sale of securities available for sale		36,375,725	58,617,009
Securities purchased under resale agreements		(8,801,827)	-
Goodwill			(49,491)
Investments in associates	12	(546,840)	-
Other assets held for sale		549,507	785,951
Acquisition of intangible assets	14	(1,045,432)	(590,193)
Acquisition of properties and equipment, net	13	(551,661)	(3,779,220)
Net cash used in investing activities		(12,811,867)	(39,770,839)
Cash flows from financing activities:			
Securities sold under repurchase agreements		103,373	-
Financings received		34,635,000	(1,125,795)
Financings paid		(5,829,243)	-
Bonds payable	19	22,507,230	5,823,447
Redemption of placements		-	-
Capital paid in excess		2,000,000	30,000,000
Dividends paid		(1,430,000)	(357,500)
Complementary tax		(168,962)	(126,896)
Net cash from financing activities		51,817,398	34,213,256
Net increase in cash and cash equivalents		41,957,304	30,094,134
Cash and cash equivalents at beginning of year		97,421,637	67,327,503
Cash and cash equivalents at end of year		139,378,941	97,421,637
Non-monetary transactions in financing activities:			
Dividends payable		1,072,500	1,072,500

The accompanying notes are an integral part of these 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 Banco Prival, S.A. (in Spanish) - Prival Bank, S.A. (in English), 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 owned by Grupo Prival, S.A., an entity incorporated on April 8, 2009 in accordance with the laws of the Republic of Panama.

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

The Bank owns 100% of the issued and outstanding shares of the following subsidiaries:

- Prival Securities, Inc., Panamanian company, which started operations in September 2010, which is licensed to operate as a brokerage house issued by the Superintendency of Panama Securities Exchange in accordance to Decree Law No.1 of July 8, 1999, modified by Decree Law No.67 of September 1, 2011. Additionally, the operations of the brokerage houses are regulated by Agreement 4-2011 of June 27, 2011 modified by Agreement 8-2013 of September 18, 2013 which indicates that they are required to comply with capital adequacy, solvency and liquidity ratios, capital funds and concentration of credit risk rules established the Superintendency of Panama Securities Exchange.

- Prival Leasing, Inc., a Panamanian company, is dedicated to the leasing operations.

- Prival Trust, S.A., a Panamanian company which started operations in April 2011, is licensed to operate as fiduciary issued by the Superintendency of Banks of Panama, according to Resolution FID-001-2011 of February 18, 2011.

- Grupo Prival Costa Rica, S. A., (the Subsidiary) company incorporated on January 31, 2011 by Public Deed 159, folio 86, volume 26. In October 2014, Grupo Prival Costa Rica, S. A. signed a purchase sale agreement for the acquisition of all the shares issued and outstanding of Banco de Soluciones (Bansol) de Costa Rica, S. A., a company incorporated on November 1st., 2010 under the Costa Rican banking system as a private banking entity. Regulated by the Organic Law of the National Banking System, the Organic Law of the Costa Rica Central Bank and the prudential rules and regulations established by the National Council of Supervision of Financial System, the Central Bank of Costa Rica and by the General Superintendency of Financial Entities (SUGEF).

  Bansol offices are located at San Pedro Montes de Oca, on the north side of San Pedro Mall.

2. Adoption of new and revised International Financial Reporting Standards (IFRS's)

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, 2015, 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.

IFRS 9 - Financial Instruments: Classification and Measurement.

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.

Includes limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments. It also adds the impairment requirements relating to the accounting for an entity’s expected credit losses on its 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. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to 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.

NIIF 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. In its place, 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, it has not assessed the impact that the adoption of this standard will have on the consolidated financial statements.

3. Significant accounting policies

3.1 Basis for preparation

The consolidated financial statements have been prepared under the historical cost basis except for the investments available for sale and trading securities, which are stated 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, The 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 Principle of consolidation

The consolidated financial statements include the assets, liabilities, shareholder's equity and results of operations of Prival Bank, S.A. and the subsidiaries it controls: Prival Securities, Inc., Prival Leasing, Inc., Prival Trust, S.A. and Grupo Prival Costa Rica, S. A. Control is achieved when all the criteria shown below are met:

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

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

When the Bank has less than 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.

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

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

All significant balances and transactions between the Bank and its subsidiaries were eliminated in the consolidation.

3.2.1 <u>Changes in the Bank's ownership interests in existing subsidiaries</u>

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

When the Bank loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount 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 when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.3 Functional and presentation currency

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

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 functional currency of the entity (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 time. 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 denominated in a foreign expressed in a foreign currency is not reconverted.

Differences in exchange for non-monetary items are recognized in income in the period in which they arise except for:

- Exchange differences from loans 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 from monetary items receivable or payable related to a foreign operation for which it is not planned or possible for a payment to be generated (thus 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 they fluctuate significantly during the period, in which case the exchange rates of the dates on which transactions are effected are used. Translation differences arising are recognized in the consolidated statement of profit or loss and other comprehensive income and are accumulated in equity (Attributed to non-controlling interests as appropriate).

In the arrangement of a foreign operation (available to all the Bank's participation in a foreign operation, an arrangement involving a partial sale of a stake in a joint agreement or an associate that includes a foreign operation which the retained interest becomes a financial asset) all exchange differences accumulated in equity relating to that attributable to owners of the Bank operation are reclassified to profit or loss.

In addition, with respect to the 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 reclassified 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 which reports. 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 on 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 reclassify as well as through the amortization process .

Securities sold under repurchased 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 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 give a default by the counterparty, which entitles the Bank to appropriate values.

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 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 equity, until they are discharged from financial assets or an impairment is determined. At this time, the cumulative gain or loss, previously recognized in equity, is recognized in the consolidated statement of profit or loss and other comprehensive income.

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

Loans

The 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 all of its initial investment substantially, unless due to credit deterioration.

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

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to receive cash flows have expired; or when the Bank has transferred financial assets and substantially all 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 assets and liabilities related to the amounts that it would 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 liability secured by the amount 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 where neither all the risks and rewards of ownership of a financial asset are retained or transferred substantially and control of the asset is retained, the asset continues to be recognized to the extent of its continuing involvement, determined by the degree to which it is exposed to the changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to serve a financial asset transferred 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 Income and interests expenses

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.

3.8 Commission income

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

Moreover, income from brokerage and structuring of debt issuance correspond to the fees charged for the purchase and sale of securities to customers and debt structuring. These revenues are recognized in the results of the bank on the (settlement date) of the transaction. 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 portfolio 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.

Generally, commissions on short-term loans and other banking services are recognized as income when collected for being short-term transactions. The revenue recognized at the time of collection is not significantly different from that recognized under the accrual method. Commissions on loans and other transactions in the medium and long term, 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 Identification and measurement of impairment

The Bank assesses at each balance 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 or financial group that can be estimated reliably.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- 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, a concession that the lender would not otherwise consider is granted to the borrower.

- It becoming 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, although the decrease cannot yet be identified with the individual financial assets in the Bank.

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 bad loans.

When a subsequent event causes a decrease in the amount of the impairment loss, this decrease in impairment loss is reversed in profit or loss.

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 in search of deterioration grouping similar risk characteristics.

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

- The assessment of the solvency of the market as reflected in bond yields.
- Assessments of credit rating agencies.
- The country's ability to access capital markets for new debt issues.
- The probability that the process of debt restructuring to result in losses of owners, through voluntary or mandatory punishment.

International support mechanisms in place to provide the necessary support as “lender of last resort” to that country, and the intention, reflected in public statements, governments and agencies to use those mechanisms. This included an assessment of the depth of these mechanisms and, regardless of political intent, if there is the ability to meet the required criteria.

In assessing collective impairment the Bank uses statistical modeling of historical trends of probability of default, timing of recoveries and the amount of loss incurred, adjusted according to management judgment as to whether the current conditions of economy and credit are such that the actual losses could be higher or lower than those suggested by historical models . Default rates, loss rates incurred and the expected timing of future recoveries are regularly referenced against actual outcomes to ensure 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 or loans that are not individually significant. 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 to determine whether there is impairment.

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

Collectively 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 due according to the contractual terms of the assets being evaluated.

The 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 credit risk characteristics similar to credit and experienced group Administration views on whether the current economy and credit conditions may change the actual level of inherent losses, historical and suggested.

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 book value and fair value when the fair value is less than book value.

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 in 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 bad 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.

Cancellation

The Bank punishes certain financial instruments when it is determined to be uncollectible.

When a loan is uncollectible or debt instrument is canceled against the allowance for loan losses. Such loans are written off after all necessary procedures have been covered and the amount of the loss has been determined. Recoveries of previously given low amounts credited to the reserve.

3.10 Property , furniture, equipment and improvements

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

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 book value of loans not paid or fair value less selling costs.

Management considers it prudent to maintain a reserve 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 each date of the 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 be 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, 2016, Management has not identified any impairment of non-financial assets.

3.13 Financial Leases

Financial leases consist mainly of leases of equipment, machinery and vehicles, which are reported as part of the loan portfolio at the present value of the lease. The difference between the gross amount receivable and the present value of the amount receivable is recorded as unearned interest income, which is amortized to income from operations using a method that reflects a periodic rate of return.

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 remeasured 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 remeasured 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 remeasured 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:

Panamanian labor law requires that employers constitute a severance fund to guarantee payment of seniority premiums and indemnity in cases of unjustified dismissals or resignation. For the establishment of this fund, employers have to contribute the fund based on 1.92% of total salaries paid in the Republic of Panama and 5% of the monthly quota part of the indemnity. Payments should be founded on a quarterly basis in a trust. Such contributions are recognized as expense in the results of operations. The severance fund is maintained in a private trust and it is managed by an entity independent of the Bank and subsidiaries.

Costa Rica 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.

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 activities of the Bank 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.

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

4.2 Credit Risk

Is the risk of a financial loss for the Bank, that may take place if a client or a counterparty of a financial instrument 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 or by the Managers of the Credit portfolios, as well as control areas, 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	
	2016	**2015**
Deposits in banks	173,521,991	127,134,128
Investments in securities	127,977,432	119,653,193
Loan Portfolio	496,363,325	407,225,613
Total	797,862,748	654,012,934
Credit risk exposure related to off-balance sheet :		
Sureties and endorsements	13,631,163	12,645,038
Letter of promise of payment	3,668,479	5,367,508
Credit lines to be disbursed	90,049,829	49,837,605
Total	107,349,471	67,850,151

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 reserves held by the Bank for these assets:

	Loans		Investments in securities	
	2016	**2015**	**2016**	**2015**
Maximum Exposure				
Carrying amount, net	496,363,325	407,225,613	127,977,432	119,653,193
At amortized cost				
Risk level				
Normal	464,702,275	374,952,900	-	-
Special mention	28,016,460	26,177,651	-	-
Sub-normal	3,195,539	7,660,383	-	-
Doubtful	2,285,643	3,724,506	-	-
Unrecoverable	1,734,967	656,612	-	-
Gross amount	499,934,884	413,172,052	-	-
Reserve for loans	(1,748,965)	(4,336,424)	-	-
Uneamed interest and commissions	(1,822,594)	(1,610,015)	-	-
Carrying amount, net	496,363,325	407,225,613	-	-
Investments in securities available for sale				
Low risk				
Carrying amount	-	-	111,345,982	112,370,513
Reserve due to impairment	-	-	-	-
Carrying amount, net	-	-	111,345,982	112,370,513
Investments in securities through profit or loss				
Carrying amount	-	-	16,631,450	7,282,680
Reserve due to impairment	-	-	-	-
Carrying amount, net	-	-	16,631,450	7,282,680

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

Notes to the consolidated financial statements
for the year ended June 30, 2016
(In balboas)

	Loans		Investments in securities	
	2016	**2015**	**2016**	**2015**
Non-defaulter nor impaired				
Normal	464,422,019	368,872,586	127,977,432	119,653,193
Special mention	24,006,976	19,818,140	-	-
Sub-normal	2,051,407	3,686,451	-	-
Doubtful	82,367	505,263	-	-
	490,562,769	392,882,440	127,977,432	119,653,193
Defaulter but not impaired				
30 to 60 days	754,335	6,452,578	-	-
61 to 90 days	99,367	558,318	-	-
91 to 120 days	21,510	1,274,784	-	-
121 to 180 days	222,372	840,880	-	-
181 days or more	157,054	160,953	-	-
Sub-total	1,254,638	9,287,513		
Individually impaired				
Special mention	3,580,839	4,771,922	-	-
Sub-normal	854,690	2,653,857	-	-
Doubtful	2,104,236	2,930,552	-	-
Uncollectible	1,577,712	645,768	-	-
Sub-total	8,117,477	11,002,099	-	
Reserve impairment				
Individual	(1,623,639)	(4,109,534)	-	-
Collective	(125,326)	(226,890)	-	-
Total impairment reserve	(1,748,965)	(4,336,424)	-	-
Unearned interest and commissions	(1,822,594)	(1,610,015)	-	-
Total	496,363,325	407,225,613	127,977,432	119,653,193
Off-balance sheet operations				
Low risk				
Letters of credit	13,631,163	12,645,038	-	-
Letters of promise to pay	3,668,479	5,367,508	-	-
Credit lines to be disbursed	90,049,829	49,837,605	-	-
Total	107,349,471	67,850,151	-	-

Below is the aging of the loan portfolio delinquencies:

	2016	2015
Current	495,390,934	398,517,960
From 31 to 90 days	863,910	10,153,705
Over 90 days	3,680,040	4,500,387
Total	499,934,884	413,172,052

Below are included the information and assumptions used for these disclosures:

- *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.

The information in the following table reflects the assessment of the composition of the Bank's assets. As at June 30, the Bank had placed B/.59,075,565 (61%) (2015: B/.56,895,499 (59%) in institutions with investment grade or cash collateral. In Management's opinion, in the Bank's investment portfolio there are highly liquid investments (with Baa3 to AAA- rating), which can be converted into cash in a period less than one week.

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
Not rated	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

2015	**Securities purchased under resale agreements**	**Trading Securities**	**Securities avalaible for sale**	**Total**
With investment grade	-	7,269,680	59,988,299	67,257,979
Standard monitoring	-	-	19,348,314	19,348,314
Not rated	-	13,000	33,033,900	33,046,900
Total	-	7,282,680	112,370,513	119,653,193

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

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 Warranty
	2016	**2015**	
Loan portfolio	49%	57%	Cash, properties and others

Loans and advances to customers 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 charges 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.

	2016	**2015**
Residential mortgage loans :		
Less than 50%	5,592,454	4,265,343
51% - 70%	11,056,093	9,264,006
71% - 90%	8,299,747	7,262,301
More than 90%	2,264,650	3,406,727
Total	27,212,944	24,198,377

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:

	2016		**2015**	
	Loans	**Investments**	**Loans**	**Investments**
Concentration by sector				
Corporate	441,343,800	-	357,795,597	-
Consumer	58,591,084	-	55,376,455	-
Securities	-	127,977,432	-	119,653,193
	499,934,884	127,977,432	413,172,052	119,653,193
Geographical concentration				
Panama	243,558,424	87,047,300	205,116,984	88,776,352
Latin America and Caribbean	256,292,820	40,758,165	202,160,831	30,558,120
North America	13,484	171,967	258,050	318,721
Europe, Asia and Oceania	70,156	-	5,636,187	-
	499,934,884	127,977,432	413,172,052	119,653,193

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, 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.

Following is the legal liquidity index corresponding to the margin of the net liquid assets on deposits received from the Bank's customers at the date of the consolidated financial statements:

	2016	**2015**
At the closing of the year	**51%**	**54%**
Year average	46%	67%
Year maximum	53%	76%
Year minimum	40%	54%

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:

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						
Deposits in banks	172,268,295	1,053,404	200,292	-	-	173,521,991
Securities purchased under sales agreement	8,809,931	-	-	-	-	8,809,931
Investments in securities:						
To negotiate	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						
Cllient deposits	348,390,448	49,428,375	179,377,244	80,307,157	-	657,503,224
Bonds payable	.	10,003,322	25,957,382	12,490,130	-	48,450,834
Financings received	3,172,484	1,132,997	8,459,931	32,894,867	48,448	45,708,727
Securities sold under repurchase agreements	103,406	-	-	-	-	103,406
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

2015	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Financial assets						
Deposits in banks	125,880,767	1,053,069	200,292	-	-	127,134,128
Investments in securities:						
To negotiate	2,113,815	-	-	2,664,688	2,504,177	7,282,680
Available for sale	2,717,130	-	15,153,957	35,222,903	59,276,523	112,370,513
Loans	52,568,333	64,760,630	137,818,894	111,776,829	46,247,366	413,172,052
Total assets	183,280,045	65,813,699	153,173,143	149,664,420	108,028,066	659,959,373
Financial liabilities						
Client deposits	310,132,962	55,242,861	145,075,030	54,225,873	-	564,676,726
Bonds payable	-	-	25,872,091	-	-	25,872,091
Financings received	372,975	1,388,591	8,661,680	6,143,541	232,411	16,799,198
Total liabilities	310,505,937	56,631,452	179,608,801	60,369,414	232,411	607,348,015
Net position	(127,225,892)	9,182,247	(26,435,658)	89,295,006	107,795,655	52,611,358

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

2016	Carrying Value	Undisconted 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	-	-	-
Bonds payable	48,450,834	50,951,140	30,556,325	20,394,815	-	-
Financings received	45,708,727	49,757,552	15,258,614	2,677,362	31,821,576	-
Total financial liabilities	751,766,191	770,878,754	577,508,841	97,126,789	94,474,721	1,768,403

2015	Carrying Value	Undisconted cash flows	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Financial liabilities						
Deposits received	564,676,726	564,760,847	511,675,284	32,391,488	20,694,075	-
Bonds payable	25,872,091	26,219,512	25,909,118	254,749	55,645	-
Financings received	16,799,198	17,125,356	10,754,302	2,452,446	2,037,640	1,880,968
Total financial liabilities	607,348,015	608,105,715	548,338,704	35,098,683	22,787,360	1,880,968

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.

Prival Bank (Costa Rica), S.A. uses the model of Value at Risk (VAR) for managing the market risks of its investment portfolio. The methodology corresponds to the historical mode, where the market pricing information is used for an earlier period and the calculation reflects the market risk already observed. Pursuant to the provisions of SUGEF Agreement 3-06, the historical mode is applied with the last 521 observations with a confidence level of 95% and over a period of 21 days.

On the other hand, the Subsidiary calculates the indicator established by SUGEF, which measures the change in the value of assets and liabilities to changes in interest rates, specifically the Basic Passive Rate of the Central Bank of Costa Rica in colones, and the Prime Rate for three months in US dollars. To control this risk, the Bank has established adjustable rates in loans in order to reduce gaps in the length of the amortization of assets and liabilities. Currently, the Bank's investment policy does not provide proprietary trading in currency markets or “commodities”.

Also, 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, S.A. Additionally, the Bank's investment policies provide for a limit of 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.

- 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.

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 rate setting and the maturity date:

2016	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 year 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						-
resale agreements	8,809,931	-	-	-	-	8,809,931
Investments in securities:						
To negotiate	13,234,213	-	182,239	1,883,346	1,331,652	16,631,450
Avalaible 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	348,390,448	49,428,375	179,377,244	80,307,157	-	657,503,224
Securities sold under						
repurchase agreements	103,406	-	-	-	-	103,406
Bonds payable	-	10,003,322	25,957,382	12,490,130	-	48,450,834
Financings received	3,172,484	1,132,997	8,459,931	32,894,867	48,448	45,708,727
Total financial liabilities	351,666,338	60,564,694	213,794,557	125,692,154	48,448	751,766,191

2015	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 year to 5 years**	**More than 5 years**	**Total**
Financial assets						
Deposits in banks	125,880,767	1,053,069	200,292	-	-	127,134,128
Investments in securities:						
To negociate	2,113,815	-	-	2,664,688	2,504,177	7,282,680
Available for sale	2,717,130	-	15,153,957	35,222,903	59,276,523	112,370,513
Loans	52,568,333	64,760,630	137,818,894	111,776,829	46,247,366	413,172,052
Total financial assets	183,280,045	65,813,699	153,173,143	149,664,420	108,028,066	659,959,373
Financial liabilities						
Client deposits	310,132,962	55,242,861	145,075,030	54,225,873	-	564,676,726
Bonds payable	-	-	25,872,091	-	-	25,872,091
Financings received	372,975	1,388,591	8,661,680	6,143,541	232,411	16,799,198
Total financial liabilities	310,505,937	56,631,452	179,608,801	60,369,414	232,411	607,348,015

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

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

The analysis carried out by the Bank to determine the impact on the assets and liabilities of increases and decreases in interest rates, assuming no asymmetrical movements in the yield curve and a constant financial position is as follows:

2016	**Increase of 100pbs**	**Decrease of 100pbs**
Bank deposits	144,309	(144,309)
Investments in securities	3,456,428	(3,456,428)
Loans	13,361,391	(13,361,391)
Clients deposits	5,058,276	(5,058,275)
Securities sold under repurchase agreements	24,886	(24,886)
Financings received	909,089	(909,089)
Bonds payable	246,877	(246,877)
Net impact	23,201,256	(23,201,255)

2015	**Increase of 100pbs**	**Decrease of 100pbs**
Bank deposits	143,910	(143,910)
Investments in securities	3,657,316	(3,657,316)
Loans	10,717,665	(10,717,665)
Clients deposits	4,965,042	(4,965,042)
Financings received	258,721	(258,721)
Bonds payable	420,817	(420,817)
Net impact	20,163,471	(20,163,471)

4.5 Operational risk

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.

The Bank has established a comprehensive risk administration and management policy approved by the Risk Committee, General Management and the Audit Committee of the Board of Directors. The Risk Committee measures liquidity risk, market risk, credit risk and operational risk.

The structure of operational risk management has been developed to provide a segregation of responsibilities among owners, executors, control areas and those areas responsible for ensuring compliance with policies and procedures. Business units and services of the Bank assume an active role in identifying, measuring, monitoring and controlling operational risk and are responsible for understanding and managing these risks within their daily activities.

The implementation of this risk management structure has made the Bank adopt a methodology for evaluating business processes based on risk, which consist on identifying the key areas and processes in relation to strategic objectives, identifying risks inherent to the business and laying out the cycle of the process to identify mitigating risks and controls. This is supported by technological tools to document, quantify and monitor the risks identified in the different processes through risk matrices. The internal audit department through its programs ensures compliance with the procedures and controls identified and together with the Risk Management Department monitors the severity of the risks. This methodology has as a main objective to add the maximum fair value in each of the organization's activities, reducing the possibility of failure and loss.

To establish this methodology, the Bank has allocated resources to strengthen the internal control and organizational structure allowing independence between business, risk control and registration areas. This includes a proper operating segregation in the registration, reconciliation and transaction authorization, which is documented through defined policies, processes and procedures including control and security standards.

In relation to human resources, existing policies of recruitment, evaluation and personnel retention have been strengthened, thus achieving highly qualified personnel with professional experience, which has to meet various induction processes in different positions, training plans and certification of understanding and acceptance about behavior policies and business standards established in the Code of Business Ethics.

The Bank has made a significant investment in adapting the technology platform in order to be more efficient in the different business processes and to reduce risk profiles. To this end, security policies have been strengthened and a policy for technology risk management has been established.

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 13.13 % (2015: 14.20 %) on their 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 inputs 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, 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, investments available for sale 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).

Finacial assets	Fair value 2016	2015	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relation of observable entry data at fair value
Trading securities						
Private debt title	182,474	725,040	Level 2	Quoted prices for identical instruments in markets that are not active	N/A	N/A
Private debt title	-	554,747	Level 3	Discounted cash flow	The discount rate used to discount the flows comprises the stock price subject to the last date of transaction	The higher the discount rate, the lower the market value
Mutual funds	13,234,213	2,100,815	Level 2	Quoted prices for identical instruments in markets that are not active	N/A	N/A
Governments bonds	3,037,749	3,889,078	Level 1	Quoted prices in an active market	N/A	N/A
Government bonds	177,014	-	Level 3	Discounted cash flow	The discount rate used to discount the flows comprises the stock price subject to the last date of transaction	The higher the discount rate, the lower the market value
Quoted shares in an organized local market	-	13,000	Level 2	Quoted prices for identical instruments in markets that are not active	N/A	N/A
	16,631,450	7,282,680				

Financial assets	Fair value 2016	Fair value 2015	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of observable inputs at fair value
Securities available for sale (see Note 9)						
Government bonds	20,343,240	20,043,240	Level 1	Quoted prices in an active market	N/A	N/A
Government bonds	-	996,917	Level 3	Discounted cash flow	The discount rate used to discount the flows comprises the stock price subject to the last	The higher the discount rate, the lower the market value
Corporate debt security	26,813,159	15,343,299	Level 3	Discounted cash flow	The discount rate used to discount the flows comprises the debt title price subject to the last	The higher the discount rate, the lower the market value
Corporate debt security	45,105,081	60,851,612	Level 2	Quoted prices for identical instruments in markets that are not active	N/A	N/A
Corporate debt security	10,685,455	12,418,315	Level 1	Quoted prices in an active market	N/A	N/A
Mutual funds	7,234,074	1,136,897	Level 3	Discounted cash flow	The discount rate used to discount the flows comprises the stock price subject to the last date of transaction	The higher the discount rate , the lower the market value
Mutual funds	-	1,151,454	Level 2	Quoted prices for identical instruments in markets that are not active	N/A	N/A
Common shares of companies	1,086,195	350,000	Level 3	Discounted cash flow	The discount rate used to discount the flows comprises the stock price subject to the last date of transaction	The higher the discount rate, the lower the market value
Quoted shares	78,600	78,600	Level 2	Quoted prices for identical instruments in markets that are not active	N/A	N/A
Quoted shares	178	179	Level 1	Quoted prices in an active market	N/A	N/A
	111,345,982	112,370,513				

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

Movement of financial instruments classified in Level 3 is presented below:

	2016	**2015**
Balance at beginning of year	18,381,859	20,975,983
Purchases and additions	16,327,068	1,015,022
Reclassifications of category	11,425,013	4,981,854
Change in fair value	160,114	(22,378)
Sales and redemptions	(11,102,807)	(8,622,312)
Accrued interest receivable	119,192	53,690
Balance at end of year	35,310,439	18,381,859

During 2016, investments classified as available for sale were transferred from level 2 to level 3, because certain inputs used to determine their fair value became unobservable.

5.2 Fair value of financial assets and liabilities of the Bank that are not measured at fair value (but fair value disclosures are required)

Below is a summary of the carrying amount and estimated fair value of significant financial assets and liabilities not measured at fair value:

	Fair value hierarchv				
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 agreement	-	-	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 repurchese agreement	-	103,406	-	103,406	103,406
Bonds payable	-	-	49,980,154	49,980,154	48,450,834
Financings received	-	-	45,705,411	45,705,411	45,708,727
Total financial liabilities	-	103,406	758,409,884	758,513,290	751,766,191

	Fair value hierarchv				
2015	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying amount**
Financial assets					
Bank deposits	-	-	127,134,128	127,134,128	127,134,128
Loans	-	-	414,220,453	414,220,453	413,201,298
Total financial assets	-	-	541,354,581	541,354,581	540,335,426
Financial liabilities					
Client deposits	-	-	566,646,845	566,646,845	564,676,726
Bonds payable	-	-	28,206,313	28,206,313	25,872,091
Financings received	-	-	14,511,292	14,511,292	16,799,198
Total financial liabilities	-	-	609,364,450	609,364,450	607,348,015

The fair value of time deposits greater than one year is estimated using the discounted cash flow technique by applying the rates offered for deposits with similar terms and maturities.

The estimated fair value for loans represents the discounted amount of estimated future cash flows to be received.

The estimated fair value for financings and bonds payable represents the discounted amount of estimated future cash flows to be paid.

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 bad 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 available for sale that have no active market price

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.

When the “inputs” of level 1 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 equity instruments. 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.

The Bank makes estimates and judgments that affect the reported amounts of assets and liabilities within the next fiscal year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Impairment losses on bad loans* - The Bank reviews its loan portfolio to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss and other comprehensive income, the Bank makes judgments and decisions as to whether there is observable data indicating there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when its future cash flows are programmed. The methodology and assumptions used to estimate the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) *Impairment of securities available for sale* - The Bank determines that the securities available for sale are impaired when there has been a significant or permanent decline in fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in the price of investment and other similar investments. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the issuer, industry performance and the industry, changes in technology and financial and operating cash flows.

(c) *Fair value of financial instruments* - The Bank measures the fair value using hierarchical levels that reflect the significance of the data inputs used in making the measurements. The Bank has established a process and a documented policy for determining the fair value in which the responsibilities and segregation of duties have been defined among the different responsible areas involved in this process, and has been approved by the Committee of Assets and Liabilities, the Risk Committee and the Board of Directors.

7. Balances and transactions with related parties

Balances and transactions with related parties included in the consolidated financial statements are summarized below:

2016	Directors and management staff	Related companies	Associate companies	Total
Assets				
Investments 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 expense	48,637	1,027,433	-	1,076,070
Commissions earned		110,161	2,325,939	2,436,100
Benefits of key management personnel:				
Wages and other remunerations	2,384,176	-	-	2,384,176

2015	Directors and management staff	Related companies	Associate Companies	Total
Assets				
Investments in other entities	-	-	2,612,500	2,612,500
Loans	5,405,409	42,344,372	-	47,749,781
Other assets	-	-	4,391,169	4,391,169
Liabilities				
Client deposits	3,498,397	48,432,556	8,818,166	60,749,119
Other liabilities	-	1,072,500	595,577	1,668,077
Income and expenses				
Interest income	91,536	1,307,283	2,571	1,401,390
Interest expense	34,437	58,526	103,333	196,296
Commissions earned			1,903,532	1,903,532
Benefits of key management personnel:				
Wages and other remunerations	719,305	-	-	719,305

Loans to related companies during the year amounted to B/.39,772,123 (2015: B/.42,344,372), at interest rates between 3.75% and 18%; with several maturities until 2046.

Loans to directors and key executives during the year amounted to B/.6,323,433 (2015: B/.5,405,409), at interest rates between 3.75 % and 18 %, with several maturities until 2045.

The balances of loans to related companies, directors and key executives secured with cash amounted to B/.24,315,472 (2015: B/.28,572,579) and balances secured by mortgages amounted to B/.14,538,276 (2015: B/.8,149,100).

During the period, the participation the Bank held in the equity of an operator of an electric plant was sold at the carrying amount to a related company for B/.3,801,110, as well as loans totaling B/.4,198,066.

Deposits of related companies during the year amounted to B/.85,032,593 (2015: B/.57,250,722), at interest rates between 0.05% and 8%, with several maturities until 2019.

Deposits of directors and key executives during the year amounted to B/.6,212,857 (2015: B/.3,498,397), at interest rates between 0.05% and 3.75%; with several maturities until 2016.

8. Cash equivalents and bank deposits

	2016	2015
Cash	1,149,438	1,295,803
Demand deposits	119,690,073	107,298,449
Time deposits	53,831,918	19,835,679
Total cash and cash equivalents	173,521,991	127,134,128
	174,671,429	128,429,931
Less:		
Restricted demand and time deposits	35,291,339	31,007,620
Cash and cash equivalents for effects of the consolidated statement of cash flows	139,380,090	97,422,311

The restricted time deposits amounted to B/.1,453,000 of which B/.200,000 are at Pershing LLC, required to manage the investment portfolio, B/.200,000 at the BAC Panama Bank which guarantees the line of credit, and B/.1,053,000 at Euroclear Bank, required for the custody and settlement of securities transactions.

The Subsidiary, Grupo Prival Costa Rica, S.A., has restricted deposits for B/.33,838,339 (2015: B/.29,554,620), corresponding to the legal reserve required by its local regulations.

Average rate on interest-bearing deposits is 0.108%, with several maturities until May 20, 2017. (2015: 0.157% and maturities until May 20, 2016).

9. Securities purchased under resale agreements

The securities purchased under resale agreements for B/.8,809,931 are guaranteed by external debt bonds of the Government of Costa Rica, and property titles in dollars mature in July 2016.

10. Investment securities

	2016	2015
To negotiate	16,631,450	7,282,680
Available for sale	111,345,982	112,370,513
	127,977,432	119,653,193

10.1 To negotiate

	2016	2015
Fair value:		
Government debt securities	3,214,763	3,889,078
Private debt securities	182,474	1,279,787
Mutual funds	13,234,213	2,100,815
Quoted shares	-	13,000
	16,631,450	7,282,680

Annual interest rates accrued by trading securities are between 1.49% and 6.25% (2015: 3% and 6.75%) with several maturities until 2025.

10.2 Available for sale

	2016	2015
Private debt securities	64,340,177	73,281,379
Government debt securities	38,606,760	36,372,004
Mutual funds	7,234,249	2,288,352
Common shares of companies	1,164,796	428,778
	111,345,982	112,370,513

Annual interest rates accrued by available-for-sale securities range between 0.46% and 11.50% (2015: between 2.5% and 6.5%).

11. Loans

Loans by type are listed below:

	2016		Total	2015		Total
	Internal	External		Internal	External	
Consumer:						
Personal	9,925,238	6,418,020	16,343,258	5,531,762	8,284,019	13,815,781
Automobile	348,840	1,766,066	2,114,906	465,580	1,749,602	2,215,182
Overdrafts	10,736,656	-	10,736,656	8,161,354	244,784	8,406,138
Mortages	16,759,396	10,453,548	27,212,944	15,137,873	9,060,504	24,198,377
Credit cards	949,631	1,314,125	2,263,756	892,669	5,848,309	6,740,978
Corporate:						
Services	46,908,243	59,851,387	106,759,630	53,607,964	65,189,593	118,797,557
Construction	61,940,880	57,219,153	119,160,033	60,767,718	36,390,869	97,158,587
Mining	1,536,438	-	1,536,438	1,045,866	-	1,045,866
Leasing	759,050	-	759,050	241,843	4,171,737	4,413,580
Industrial	2,376,230	15,110,239	17,486,469	2,936,692	19,997,235	22,933,927
Agricultural	3,619,200	5,534,651	9,153,851	3,619,200	4,178,609	7,797,809
Commercial	76,452,688	79,669,557	156,122,245	50,930,549	37,685,558	88,616,107
Financial services	11,245,947	13,443,126	24,689,073	1,777,914	10,753,802	12,531,716
Ports and railways	-	5,596,575	5,596,575	-	4,500,447	4,500,447
	243,558,437	256,376,447	499,934,884	205,116,984	208,055,068	413,172,052
Less						
Provision for posible uncollectible loans	-	-	(1,748,965)	-	-	(4,336,424)
Unearned discounted interest and comissions	-	-	(1,822,594)	-	-	(1,610,015)
Total loans, net			496,363,325	-	-	407,225,613

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

	2016	2015
Balance at beginning of year	4,336,424	100,070
Balance of acquired subsidiary	-	4,573,745
(Reversal) provision charged to expenses	(1,401,005)	288,388
Loans written-off	(1,186,454)	(625,779)
Balance at end of year	1,748,965	4,336,424

The loan portfolio includes leases receivable with a maturity profile as follows:

	2016	2015
Minimum lease payment receivable:		
From 1 to 5 years	764,861	241,576
Balance at the end of the year	764,861	241,576

The interest rate of the leases range between 5.61% and 7%.

12. Investment in other entities

At June 30, the investment in other entities is summarized as follows:

Name	Activity	Country of incorporation	% of participation	2016	2015
Acerta Holdings, S. A.	Insurance company	Panama	17.50%	2,984,340	2,537,500
Prival Bond Fund, S.A.	Mutual fund	Panama	0.01%	25,000	25,000
Prival Multi Strategy Income and Growth Fund, S.A.	Mutual fund	Panama	0.31%	25,000	25,000
Prival Mila Fund, S. A.	Mutual fund	Panama	0.43%	25,000	25,000
Prival Private Equity Fund	Mutual fund	Panama	0.80%	50,000	-
Prival Real Estate Fund	Mutual fund	Panama	0.02%	50,000	-
				3,159,340	2,612,500

Investments in other entities correspond to unquoted equity instruments, which are recognized at cost considering it is the best suitable estimate of the fair value of the instruments. Every year the Bank performs impairment assessment of these equity instruments to measure that the cost is still the best estimate of the fair value.

13. Furniture, equipment and improvements

Furniture, equipment and improvements are detailed bellow:

2016	Initial balance	Additions	Decreases	Acquired subsidiary	Final balance
Cost					
Land	592,356	-	-	-	592,356
Building	1,826,696	14,700	-	-	1,841,396
Furniture and equipment	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 equipment	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 balance	7,622,475	805,199	(1,290,260)	-	7,137,414

2015	Initial balance	Additions	Decreases	Subsidiary acquired	Final balance
Cost					
Land	-	-	-	592,356	592,356
Building	-	-	-	1,826,696	1,826,696
Furniture and fixtures	671,949	1,514,246	(10,399)	307,364	2,483,160
Office equipment	157,909	107,556	-	-	265,465
Communication equipment	176,443	50,565	-	-	227,008
Transportation equipment	94,838	98,000	-	202,421	395,259
Leasehold improvements	1,541,377	1,980,658	-	59,805	3,581,840
Construction in progress	10,126	9,070	(10,126)	10,428	19,498
Computer equipment	478,172	34,870	-	569,923	1,082,965
	3,130,814	3,794,965	(20,525)	3,568,993	10,474,247
Accumulated depreciation and amortization					
Building	-	19,078	-	-	19,078
Furniture and fixtures	219,682	757,298	(4,780)	-	972,200
Office equipment	112,558	30,844	-	-	143,402
Communication equipment	152,412	23,738	-	-	176,150
Transportation equipment	19,053	28,802	-	-	47,855
Leasehold improvements	476,080	623,328	-	-	1,099,408
Computer equipment	233,630	160,049	-	-	393,679
	1,213,415	1,643,137	(4,780)	-	2,851,772
Net value	1,917,399	2,151,828	(15,745)	3,568,993	7,622,475

At June 30, the building is secured as a bank credit collateral with Global Bank, S. A.

14. Intangible assets and goodwill

	2016	2015
Intangible assets	4,399,452	4,433,796
Goodwill	7,935,579	7,172,809
	12,335,031	11,606,605

14.1 Intangible assets

2016	Initial balance	Additions	Decreases	Final 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
Intangible assets, net	4,433,796	581,457	(615,801)	4,399,452

2015	Beginning balance	Additions	Acquired subsidiary	Final balance
Cost:				
Software and licenses	1,465,726	590,193	1,329,316	3,385,235
Deposit portfolio	-	-	2,790,000	2,790,000
Total	1,465,726	590,193	4,119,316	6,175,235
Accumulated amortization				
Software	1,176,923	564,516	-	1,741,439
Intangible assets, net	288,803	25,677	4,119,316	4,433,796

14.2 Goodwill

The Bank's goodwill is presented below:

	2016	2015
Balance at the beginning of the year	7,172,809	3,383,126
Recognized additional amounts of business combinations incurred during the year	762,770	3,789,683
		-
	7,935,579	7,172,809

At June 30, 2016, the measurement process of all the acquired assets was concluded, which resulted in an increase to the initial accounting for B/.762,770.

This operation allows Prival Bank, S.A. to continue with the development of Prival Bank (Costa Rica), S.A.'s corporate banking and expand its private banking operations and investment in the financial market of Costa Rica.

	2015
Cash and deposits in banks	37,813,479
Securities available for sale	12,280,807
Trading securities	30,432,658
Loans receivable, net	148,042,809
Intangible assets	2,790,000
Other assets	8,262,858
Customer deposits	(165,220,472)
Financings received	(37,843,386)
Other liabilities	(8,581,206)
	27,977,547
Goodwill	4,552,453
Total purchase price paid in cash	32,530,000
Less:	
Cash and deposits from acquired subsidiary	(37,813,479)
Net cash received from acquisition of subsidiary	(5,283,479)

In order to check deterioration in goodwill, the Bank conducts an annual valuation of the various businesses acquired and which have generated such gains. The calculation of the valuation of capital gains was determined based on the estimated growth projection for both businesses, using the cash flow method based on financial budgets approved by the Board of Directors, covering a period of 5 years at a discount rate of 15%.

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

The following table summarizes the Bank's goodwill balance, produced by the acquisition of the following companies:

Business	**Acquisition date**	**Acquired participation**	**Balance**
Prival Bank Costa Rica, S.A. (Formerly Bansol)	April 21, 2015	100%	4,552,453
Prival Securities, Inc	August 12, 2010	100%	3,382,726

Goodwill has had no movements during the year.

To carry out the valuation of assets and businesses acquired, their expected net flows in the corresponding cash generating unit for periods of 5 years are projected and also growth in perpetuity or multiple of flows were defined at the end of the flow projection period to estimate the terminal flow. Growth rates in assets or businesses fluctuate based on the nature of each, and the current range are between 5% and 15%, while the growth rate in perpetuity is 3%.

To determine the growth rates of assets or businesses, the performance and actual historical metrics of the relevant assets or businesses, their future projections, and the anticipated macroeconomic growth of the country, segments or businesses in assessment were used as reference, as well as the business plans of the Bank and expected growth rates in general, and for specific businesses in evaluation.

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

15. Other assets

	2016	**2015**
Prepaid insurance	106,462	55,482
Commissions receivable	3,435,881	3,061,373
Accounts receivable	811,114	1,369,840
Bills receivable	4,058,177	3,856,464
Prepaid taxes	446,423	222,354
Deposits in guarantee	74,995	91,306
Project in progress	2,516,583	115,513
Severance fund	405,565	313,889
Other prepaid expenses	214,894	973,674
Other assets held for sale	2,576,705	3,185,016
Other assets	352,175	467,020
	14,998,974	13,711,931

Commissions and receivables mainly relate to structuring services and securities brokerage.

Bills receivable have a maturity of 90 days, accruing an annual interest rate of 6.0%.

As at June 30, the Bank maintains other properties classified as assets held for sale in the amount of B/.2,576,705 (2015: B/.3,185,016).

These assets were the result of the execution of a loan guarantee and are recorded at fair value based on a recent purchase offer and evaluation made by an independent expert.

During the year, the participation the bank held in the equity of an operator of a power plant was sold for B/.3,801,110.

16. Client deposits

	2016	2015
Demand deposits	165,400,937	128,572,028
Savings deposits	171,646,356	121,901,805
Time deposits	320,455,931	314,202,893
Total	657,503,224	564,676,726

The average annual interest rate the deposits earned, ranged between 0.579% and 8.97% (2015: 0.469% and 5.44%).

17. Securities sold under repurchase agreements

Prival Securities (Costa Rica) Puesto de Bolsa, S.A., maintained liabilities from securities sold under repurchase agreements amounting to B/.103,406, maturing on July 1, 2016 and annual interest rate of 8%. These securities are guaranteed with property titles for B/.165,031.

18. Borrowed funds

Entity	Interest rate	Maturities	2016 Amount	2015 Amount
Banco Centroamericano de Integración Económica (BCIE)	4.65%	September 2016 and on 2021	3,912,173	5,050,812
Banco de Costa Rica	5.00%	2016 and 2020	7,490,014	7,894,039
Banco Nacional de Costa Rica	5.45%	2016	353,263	2,592,048
Global Bank Panamá	5.50%	2018	1,077,489	1,262,299
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	-
			45,708,727	16,799,198

Below are the guarantees of borrowed funds received:

Banco Centroamericano de Integración Económica (BCIE), this credit facility guarantees are comprised by the general liability of the subsidiary, Prival Bank (Costa Rica), S.A. and an agreement of specific guarantee on its portfolio generated by its own resources, classified as A in accordance with the qualifying criteria established by the Subsidiary in a ratio of at least 1,2 to 1,0 in assets and 1,0 in liabilities. The authorized global credit line is for B/.6,050,000.

Banco de Costa Rica has credit facilities with a portfolio transfer guarantee of promissory notes to date classified as A1 and A2 in accordance with the qualifying criteria established by the Bank, covering 143% of the balances used, with a limit of 20% per customer on the direct credit amount and 12% on the credit line amount. The authorized direct credit is for B/.2,150,000 and the line of credit is for B/.6,000,000 and B/.4,984,585.

Banco Nacional de Costa Rica has a credit facility with an assignment guarantee of mortgages, mortgage endorsements and a trust agreement, administered by a guaranteed trust. The amount of the direct authorized credit line is for B/.3,000,000.

Global Bank Panamá has a guarantee of the building of the Bank's headquarters in Costa Rica and an authorized credit line for B/.1,825,000.

Republic Bank Limited of Trinidad and Tobago maintains a line of credit as a facility in favor of Prival Bank Costa Rica, S.A. for an amount of B/.3,000,000 whose guarantee is a trust.

Banco Nacional de Panamá maintains a credit facility for an amount of B/.7,000,000 with an assignment guarantee of mortgage loans or Corporate bonds.

Credit Suisse, A.G. maintains a credit facility for Prival Bank, S. A. for an amount of B/.20,760,000 with an assignment guarantee of Bonds.

Republic Bank Limited, of Trinidad and Tobago maintains a credit line facility in favor of Prival Bank, S.A. for an amount of B/.2,000,000, without guarantee.

As at June 30, the annual interest rates that obligations earned with entities ranged between 3.22% and 5.50% (2015: 2.84% and 5.94%) in U.S. dollars.

19. Bonds Payable

At June 30, Central de Valores of the Costa Rican Stock Exchange has bonds in the amount of B/.48,450,834, (2015: B/.25,872,091).

The 2014 BANSOL Issuance Program of standardized bonds corresponds to a multicurrency program in which the maximum amount to be placed in their Series cannot exceed B/.50,000,000 on a consolidated basis.

The BANSOL 02003 Series and BANSOL 02005 Series bear interest at an annual fixed interest rate equivalent to 5.50%, payable quarterly, maturing in September and December 2016, respectively.

The BANSOL 02006 Series bears interest at an annual fixed interest rate equivalent to 5.00%, payable quarterly, maturing at the end of 2017.

The PRIVAL 02007 series accrues interest at a fixed annual interest rate equivalent to 5.98 % payable quarterly, maturing in June 2018.

Series	Interest rate	Maturity	2016	2015
Bansol 02003 and 02005	5.50%	2016	30,086,459	20,034,873
Bansol 02006	5.00%	2017	5,841,450	5,837,218
Prival 02007	5.98%	2018	12,522,925	-
			48,450,834	25,872,091

20. Other liabilities

	2016	2015
Accounts payable	961,919	1,595,733
Insurance payable	4,274	1,848
Employer contributions payable	269,997	219,137
Cashier and certified checks	2,674,153	988,823
Tax payable	838,317	842,592
Other reserves	567,234	1,640,055
Employee discounts	23,020	18,217
Dividends payable	1,072,500	1,072,500
Labor reserves	3,605,587	3,291,336
Deferred income	242,631	104,069
	10,259,632	9,774,310

21. Common shares

The capital of the Bank for B/.25,000,000 is comprised by 25,000 common shares issued and outstanding without nominal value.

According to Minutes of the Board of Directors' meeting held on June 2016, an additional capital contribution of B/.2,000,000, (2015: B/.30,000,000) was approved.

According to Minutes of the Board of Directors' meeting held on April 14, 2016, dividends for B/.1,430,000 were declared payable in four quarterly installments. At June 30, the dividends payable amounted to B/.1,072,500.

22. Interest income

As at June 30, interest income is detailed below:

	2016	2015
Investments	5,828,218	5,837,221
Loans	36,011,924	15,786,279
Deposits	64,306	108,033
Total	41,904,448	21,731,533

23. Revenues from brokerage services and structuring fees

Revenues from brokerage services and structuring fees for B/.9,377,471 (2015: B/.11,758,829) relate mainly to operations of financial intermediation and structuring investments they offer to their customers.

24. 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/.530,960,321 (2015: B/.390,389,926).

In addition, the Bank held an investment portfolio in management at the risk of clients amounting to B/.2,006,700,804 (2015: B/.1,821,668,194). Considering the nature of these services, Management believes there is no risk to the Bank.

25. Commitments and contingencies

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

	2016	2015
Endorsement and sureties	13,631,163	12,645,038
Credit lines	90,049,829	49,837,605
Promissory notes	3,668,479	5,367,508
	107,349,471	67,850,151

The endorsements, sureties and credit lines are exposed to credit losses in the event that the customer does not fulfill its obligation to pay. The policies and procedures of the Bank in 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.

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

The promises of payment is a commitment 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 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 of occupation contracts for the coming years is as follows:

	2016	2015
Less than a year	52,282	108,934
Between one and five years	3,465,471	3,764,095
Five years or more	-	612,752
	3,517,753	4,485,781

During the year ended June 30, within the rental expense for B/.1,463,910 (2015: B/.1,302,812), property rental expense was recorded for B/.796,064 (2015: B/.843,100).

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 lasts 10 years.

26. 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:

	2016	2015
Current income tax	1,538,624	1,347,710
Deferred tax from temporary differences	630,846	(313,506)
Total income tax	2,169,470	1,034,204

The deferred tax item from temporary differences, arises mainly from the reserve 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 that 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 of such tax, the amount greater of: (a) the net taxable income calculated by the standard method established in the Tax Code and (b) 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, the 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:

	Asset	Liability	Net
Allowance for impairment of the loan portfolio	6,399	(243,248)	(236,849)
Estimation for foreclosed assets	-	(38,755)	(38,755)
Recognition of pending deferred commissions of credit portfolio and contigency	150,082	-	150,082
Adjustments to fixed assets at historical exchange rates	-	(4,414)	(4,414)
Deferred from investments - equity account	38,100	-	38,100
Revaulation of assets	-	(145,882)	(145,882)
Recognition of suspended interest	-	(68,438)	(68,438)
Interest recognition on credit cards	-	(1,526)	(1,526)
	194,581	(502,263)	(307,682)

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

	2016	2015
Balance at the beginning of the year	1,064,490	25,018
Acquired subsidiary balance	(762,770)	742,370
Included in equity	-	-
Effects from unrealized loss/gains by valuation of investments	21,445	(16,404)
Included in profit or loss		
Estimation of foreclosed assets	(44,017)	-
Reserve effect for loan losses	(556,331)	381,664
Reserve effect for foreclosed assets for sale	(48,120)	(54,244)
Adjustment effect to fixed assets	37,208	(6,325)
Recognition effect of interests	(38,641)	10,628
Difference effect on credit and contingency portfolio	19,054	(18,217)
Balance at the end of the year	(307,682)	1,064,490

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:

	2016	2015
Net income before income tax	10,171,076	8,726,704
Less: foreign, exempt and non taxable incomes, net	(15,191,923)	(3,702,894)
Plus: non deductible costs and expenses	10,653,525	482,371
Taxable base	5,632,678	5,506,181
Less: tax credit from carryforward loss	(2,889)	(164,288)
Net taxable income	5,629,789	5,341,893
Current income tax	1,538,624	1,347,710

The effective average rate of the estimated income tax for the year ended June 30 is 16% (2015: 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.

27. Main applicable laws and regulations

27.1. 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.

27.2. Regulation 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.

27.3 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.

27.4 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.

27.5 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 633 to 666.

27.6 Liquidity ratio

The percentage of liquidity ratio reported by the Bank to the regulator, under the parameters of Agreement 4-2008, was 51% (2015: 54%).

27.7 Capital adequacy

The law requires banks with general licenses to maintain a minimum paid-in capital or assigned capital of ten million balboas (B/.10 million) and capital funds for not less than 8% of their risk-weighted assets, including off-balance sheet operations. The Bank presents consolidated capital funds of about 13.13% (2015: 14.20%) on their weighted risk-based 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 issued by the Superintendency of Banks sets forth the minimum required consolidated equity, the percentages required by class of capital which are effective as of January 1, 2016

Below are detailed the capital ratios of the consolidated equity:

	2016	2015
Primary capital (Pillar 1)		
Common shares	25,000,000	25,000,000
Capital paid in excess	32,000,000	30,000,000
Goodwill	(7,935,579)	(7,172,809)
Accumulated profit	17,295,130	14,148,516
Regulatory provision - specific	-	72,916
Regulatory provision - dynamic	8,113,503	5,258,442
Total	74,473,054	67,307,065
Total regulatory capital	74,473,054	67,307,065
Risk- weighted assets	567,087,044	473,929,593
Capital ratios		
Minimum percentage adequacy	8%	8%
Total regulatory capital expressed in percentage of risk- weighted assets	13.13%	14.20%
Total of pillar 1 expressed as a percentage		

The Superintendency of Securities Exchange of Panama and the Stock Exchange of Panama requires Brokerage Houses and Stock Exchange seats 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, equity funds were for B/.15,532,745 (2015: B/.12,223,303) and the solvency ratio was 957% (2015: 943%).The liquidity ratio was 16,813.69% (2015: 9,962.5%).

27.8 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 Class	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%

Management is in the process of evaluating the potential impact of these standards on the consolidated financial statements of the Bank.

27.9 Regulatory Reserves

The accounting treatment for the recognition of loan losses, on investments in securities and on foreclosed assets of borrowers in accordance with the prudential standards issued by the Superintendency of Banks of Panama, differs in some aspects of the accounting treatment in accordance with International Financial Reporting Standards (IFRSs), specifically IAS 39 and IFRS 5. The Superintendency of Banks of Panama requires that banks with general licenses apply these prudential standards.

27.9.1 *Loans and loan reserves*

27.9.1.1 *Specific provisions*

They are defined as provisions originating from objective and concrete evidence of impairment. They are created on credit facilities in special mention, sub-standard, doubtful or uncollectible categories 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 deterioration in the credit quality, although an individual identification is not yet possible.

Calculation basis

The calculation is made based on the following weighting 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	Weighting
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:

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

2015	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	320,876,672	25,884,094	7,449,493	3,236,261	349,077	357,795,597
Consumer loans	54,076,228	293,557	210,890	488,245	307,535	55,376,455
Total	374,952,900	26,177,651	7,660,383	3,724,506	656,612	413,172,052
Specific reserve		2,191,459	1,047,405	738,391	193,657	4,170,912

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:

	2016				2015			
	Current	Delinquent	Overdue	Total	Current	Delinquent	Overdue	Total
Corporate loans	438,204,661	494,691	2,564,012	441,263,364	345,047,908	9,037,925	3,709,764	357,795,597
Consumer loans	57,186,273	369,219	1,116,028	58,671,520	53,470,052	1,115,780	790,623	55,376,455
Total	495,390,934	863,910	3,680,040	499,934,884	398,517,960	10,153,705	4,500,387	413,172,052

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 loans of the Bank in non-accrual of interest amounts to B/.145.361 (2015: B/.1,850,558). Total interest income not recognized on income from loans is B/.12,746 (2015: B/.32,732).

27.9.1.2 Dynamic provisions

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

The dynamic provision 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 provision 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/.8,113,503 (2015: B/.5,258,442).

With the current Agreement, a dynamic provision 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 purposes of the dynamic provision of *Prival Bank, S. A., Prival Securities, Inc.* and *Prival Leasing, S. A.*, we detail it below:

	2016
Component 1	
Alfa Coefficient (1.50%)	2,866,322
Component 2	
Quarterly change by Beta coefficient (5.00%)	38
Component 3	
Positive quarterly change from specific reserves	(138,614)
Total dynamic provision from components	2,727,746
Total dynamic provision corresponding to 2.00% of risk-weighted assets of normal category	3,808,835

For purposes of the dynamic provision of *Prival Group Costa Rica, S. A.*, we detail it below:

	2016
Component 1	
Alfa Coefficient (1.50%)	2,748,975
Component 2	
Quarterly change by Beta coefficient (5.00%)	998,103
Component 3	
Positive quarterly change from specific reserves	(557,590)
Total dynamic provision from components	3,189,488
Total dynamic provision corresponding to 2.25 % of risk-weighted assets of normal category	4,304,668
Total dynamic provisioning	8,113,503

27.9.1.3 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 difference between the specific IFRS provision and prudential rules of the SBP is for B/.1,013,691 (2015: B/.612,722) and is recorded in the regulatory reserve under equity.

27.10 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:

2016	Normal	Special Mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	-	-	-	-	-	-
Credit lines to disburse - clients	86,307,190	3,241,591	301,875	49,173	150,000	90,049,829
Promissory notes	3,668,479	-	-	-	-	3,668,479
Sureties and endorsements	13,473,996	44,791	35,300	77,076	-	13,631,163
Total	103,449,665	3,286,382	337,175	126,249	150,000	107,349,471
Reserve required based on estimated net loss	-	13,702	13,578	49,290	-	76,570

2015	Normal	Special Mention	Subnormal	Doubtful	Uncollectible	Total
Letters of credit	286,962	-	350,000	-	-	636,962
Credit lines to disburse - clients	49,827,449	4,347	5,810	147,299	-	49,984,905
Promissory notes	4,730,546	-	-	-	-	4,730,546
Sureties and endorsements	12,421,782	75,956	-	-	-	12,497,738
Total	67,266,739	80,303	355,810	147,299	-	67,850,151
Reserve required based on estimated net loss	-	2	67,765	-	-	67,767

Letters of credit, issued guarantees and promissory notes are exposed to credit losses in the event that the client does not fulfill its obligation to pay. The policies and procedures of the Bank in 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.

Letters of credit are mostly used; however, most of these uses are at sight and their payment is immediate.

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

28. Reclassification

The figures of the 2015 consolidated financial statements were reclassified to standardize the 2016 presentation. An extract of the reclassified accounts is shown below:

Consolidated statement of financial position	As was previously reported	Reclassification	Reclassified
Cash and cash equivalents	128,429,257	674	128,429,931
Investments in securities	-	119,653,193	119,653,193
Investments to negotiate	7,217,449	(7,217,449)	-
Investments available for sale	111,971,247	(111,971,247)	-
Loans	405,308,062	1,917,551	407,225,613
Accrued interest receivable:			
Loans	1,946,796	(1,946,796)	-
Investments	464,497	(464,497)	-
Time deposits	674	(674)	-
Client deposits	562,392,119	2,284,607	564,676,726
Financings received	16,753,065	46,133	16,799,198
Bonds payable	25,787,973	84,118	25,872,091
Accrued interest payable	2,459,483	(2,459,483)	-
Other liabilities	9,758,931	15,379	9,774,310

29. Approval of the consolidated financial statements

The consolidated financial statements of Prival Bank, S.A. and subsidiaries for the year ended June 30, 2016 were authorized by the General Manager and approved by the Board of Directors for issuance on September 8, 2016.

* * * * * *

Prival Bank, S.A. and subsidiaries

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

Consolidating information on the statement of financial position
at June 30, 2016
(In balboas)

	Total consolidated	Write-offs Debit	Write-offs Credit	Sub-total	Prival Bank, S.A.	Prival Securities, Inc.	Prival Leasing, Inc.	Prival Trust, S.A.	Grupo Prival Costa Rica, S.A.
Assets									
Cash and cash equivalents	174,671,429	-	47,587,634	222,259,063	165,788,712	16,002,026	98,367	567,983	39,801,975
Securities purchased under resale agreements	8,809,931	-	-	8,809,931	-	-	-	-	8,809,931
Investment securities	127,977,432	-	-	127,977,432	97,129,812	78,780	-	-	30,768,840
Loans	496,363,325	-	757,383	497,120,708	281,292,169	92,570	764,861	-	214,971,108
Investment in associates	3,159,340	-	52,942,934	56,102,274	55,927,274	175,000	-	-	-
Property, furniture, equipment and improvements	7,137,414	-	-	7,137,414	3,260,276	-	-	-	3,877,138
Intangible assets and goodwill	12,335,031	-	-	12,335,031	257,447	3,510,341	-	-	8,567,243
Deferred income tax	194,581	-	-	194,581	6,399	-	-	-	188,182
Other assets	14,998,974	-	3,100,606	18,099,580	13,814,460	417,065	637	50,578	3,816,840
Total assets	845,647,457	-	104,388,557	950,036,014	617,476,549	20,275,782	863,865	618,561	310,801,257
Liabilities and equity									
Liabilities									
Client deposits	657,503,224	47,587,634	-	705,090,858	513,545,409	-	-	-	191,545,449
Securities sold under repurchase agreements	103,406	-	-	103,406	-	-	-	-	103,406
Financings received	45,708,727	757,383	-	46,466,110	29,855,733	-	757,383	-	15,852,994
Bonds payable	48,450,834	-	-	48,450,834	-	-	-	-	48,450,834
Deferred income tax	502,263	-	-	502,263	-	-	-	-	502,263
Other liabilities	10,259,632	3,100,606	-	13,360,238	7,823,848	265,757	-	156,665	5,113,968
Total liabilities	762,528,086	51,445,623	-	813,973,709	551,224,990	265,757	757,383	156,665	261,568,914
Equity									
Common shares	25,000,000	52,842,934	-	77,842,934	25,000,000	5,300,000	100,000	100,000	47,342,934
Additional paid-in capital	32,000,000	100,000	-	32,100,000	32,000,000	-	-	-	100,000
Regulatory reserve	9,127,194	-	-	9,127,194	4,072,090	14,437	19,368	-	5,021,299
Net changes in securities available for sale	(302,953)	-	-	(302,953)	(276,795)	54,611	-	-	(80,769)
Retained earnings	17,295,130	758,039	758,039	17,295,130	5,456,264	14,640,977	(12,886)	361,896	(3,151,121)
				-					
Total equity	83,119,371	53,700,973	758,039	136,062,305	66,251,559	20,010,025	106,482	461,896	49,232,343
Total liabilities and equity	845,647,457	105,146,596	105,146,596	950,036,014	617,476,549	20,275,782	863,865	618,561	310,801,257

Please see the accompanying independent auditors' report.

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

Appendix II

Consolidating information on the statement of profit or loss and other comprehensive income
for the year ended June 30, 2016
(In balboas)

	Total consolidated	Write-offs Debit	Write-offs Credit	Sub-total	Prival Bank, S.A.	Prival Securities, Inc.	Prival Leasing, Inc.	Prival Trust, S.A.	Grupo Prival Costa Rica, S.A.
Interest income	41,904,448	751,147	-	42,655,595	21,959,937	60,117	36,650	-	20,598,891
Interest expenses	(19,138,008)	-	751,147	(19,889,155)	(9,667,220)	(53)	(22,160)	-	(10,199,722)
Net financial income	22,766,440	751,147	751,147	22,766,440	12,292,717	60,064	14,490	-	10,399,169
Commission income	2,706,080	-	-	2,706,080	1,097,869	42,679	2,182	1,531	1,561,819
Brokerage service and structuring	9,377,471	6,892	-	9,384,363	2,390,515	6,749,157	-	244,691	-
Commission expenses	(2,121,757)	-	6,892	(2,128,649)	(408,466)	(1,293,519)	-	-	(426,664)
Net income from commissions, brokerage services and structuring	9,961,794	6,892	6,892	9,961,794	3,079,918	5,498,317	2,182	246,222	1,135,155
Gain realized on trading securities	271,870	-	-	271,870	271,870	-	-	-	-
Gain unrealized on trading securities	33,093	-	-	33,093	33,093	-	-	-	-
Gain realized on securities available for sale	597,547	-	-	597,547	597,547	-	-	-	-
Income from ordinary activities	33,630,744	758,039	758,039	33,630,744	16,275,145	5,558,381	16,672	246,222	11,534,324
Other income	495,823	-	-	495,823	117,677	12,388	-	1,695	364,063
Reversion (provision) for uncollectible loans	1,401,005	-	-	1,401,005	(24,582)	-	-	-	1,425,587
Provision for loss of available-for-sale assets	(845,930)	-	-	(845,930)	-	-	-	-	(845,930)
Salaries and employee benefits	(14,494,765)	-	-	(14,494,765)	(8,353,846)	-	-	-	(6,140,919)
Depreciation and amortization	(2,116,498)	-	-	(2,116,498)	(918,322)	(272,519)	(131)	(131)	(925,395)
Others	(7,899,303)	-	-	(7,899,303)	(4,339,751)	(661,030)	(8,434)	(27,392)	(2,862,696)
Profit before income tax	10,171,076	758,039	758,039	10,171,076	2,756,321	4,637,220	8,107	220,394	2,549,034
Income tax expense	(2,169,470)	-	-	(2,169,470)	(325,545)	(792,466)	(1,624)	(54,776)	(995,059)
Profit of the year	8,001,606	758,039	758,039	8,001,606	2,430,776	3,844,754	6,483	165,618	1,553,975
Other comprehensive income:									
Items that may be reclassified subsequently to profit or loss:									
Net gain realized on securities available for sale transferred to profit or loss	(597,547)	-	-	597,547	597,547	-	-	-	-
Unrealized (gain) loss, net	509,861	-	-	(685,233)	(574,300)	-	-	-	(110,933)
Net change in securities available for sale	(87,686)	-	-	(87,686)	23,247	-	-	-	(110,933)
Total comprehensive income	7,913,920	-	-	7,913,920	2,454,023	3,844,754	6,483	165,618	1,443,042

Please see the accompanying independent auditors' report.

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

Appendix III

Consolidating information on statement of changes in equity for the year ended June 30, 2016
(In balboas)

	Total consolidated	Write-offs Debit	Write-offs Credit	Sub-total	Prival Bank, S.A.	Prival Securities, Inc.	Prival Leasing, Inc.	Prival Trust, S.A.	Grupo Prival Costa Rica, S.A.
Common shares									
Balance at beginning of year	25,000,000	42,342,934	-	67,342,934	25,000,000	5,300,000	100,000	100,000	36,842,934
Capital contribution	-	10,500,000	-	10,500,000	-	-	-	-	10,500,000
Balance at end of year	25,000,000	52,842,934	-	77,842,934	25,000,000	5,300,000	100,000	100,000	47,342,934
balance at the beginning of the year									
Capital paid in excess									
Capital paid in excess and balance at the beginning of the year	30,000,000	100,000	-	30,100,000	30,000,000	-	-	-	100,000
Net change of the year	2,000,000			2,000,000	2,000,000	-	-	-	
Balance at end of the year	32,000,000	100,000	-	32,100,000	32,000,000	-	-	-	100,000
Regulatory reserve									
Balance at beginning of year	5,871,164	-	-	5,871,164	3,840,004	5,423	4,832	-	2,020,905
Net change of the year	3,256,030	-	-	3,256,030	232,086	9,014	14,536	-	3,000,394
Balance at end of the year	9,127,194	-	-	9,127,194	4,072,090	14,437	19,368	-	5,021,299
Net changes in securities available for sale									
Balance at beginning of the year	(215,267)	-	-	(215,267)	(300,042)	54,611	-	-	30,164
Net change in securities	(87,686)	-	-	(87,686)	23,247		-	-	(110,933)
Balance at end of the year	(302,953)	-	-	(302,953)	(276,795)	54,611	-	-	(80,769)
Retained earnings									
Balance at beginning of the year	14,148,516	-	-	14,148,516	4,757,995	10,901,243	(4,805)	198,785	(1,704,702)
Net profit	8,001,606	-	-	8,001,606	2,430,776	3,844,754	6,483	165,618	1,553,975
Complementary tax	(168,962)	-	-	(168,962)	(70,421)	(96,006)	(28)	(2,507)	-
Dividends declared	(1,430,000)	-	-	(1,430,000)	(1,430,000)	-	-	-	-
Regulatory reserve	(3,256,030)	-	-	(3,256,030)	(232,086)	(9,014)	(14,536)	-	(3,000,394)
Balance at end of the year	17,295,130	-	-	17,295,130	5,456,264	14,640,977	(12,886)	361,896	(3,151,121)
Total equity									
Balance at beginning of the year	74,804,413	42,442,934	-	117,247,347	63,297,957	16,261,277	100,027	298,785	37,289,301
Capital paid in excess	2,000,000	10,500,000		12,500,000	2,000,000	-	-	-	10,500,000
Profit for the year	8,001,606	-	-	8,001,606	2,430,776	3,844,754	6,483	165,618	1,553,975
Complementary tax	(168,962)	-	-	(168,962)	(70,421)	(96,006)	(28)	(2,507)	-
Dividends declared	(1,430,000)	-	-	(1,430,000)	(1,430,000)	-	-	-	-
Net change in securities available for sale	(87,686)	-	-	(87,686)	23,247	-	-	-	(110,933)
Balance at end 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

Please see the accompanying independent auditors' report.