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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, 2019 and Independent Auditors' Report dated September 27, 2019

"This document has been prepared with the knowledge that its content will be made available to the public investor and the general public."

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

Independent Auditors' Report and Consolidated Financial Statements as at June 30, 2019

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Complementary information

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FREE ENGLISH LANGUAGE TRANSLATION FROM SPANISH VERSION

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of **Prival Bank, S.A. and subsidiaries** (the "Bank"), which comprise the consolidated statement of financial position as at June 30, 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at June 30, 2019, and its consolidated financial performance and consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code of Ethics) and the Professional Code of Ethics for Certified Professional Accountants of Panama (Chapter V of Law 57 of September 1, 1978), and we have fulfilled the other ethical responsibilities in accordance with those requirements and with the IESBA Code of Ethics.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowance for expected credit losses in loans.
See Note 3.4 (Financial assets), Note 6 (Fair value of financial instruments) Note 7 (Critical accounting judgments and key sources of estimation uncertainty) and Note 12 (Loans) in the consolidated financial statements).

Key Audit Matter	How our audit addressed the key audit matter
The estimation for the provision for expected credit losses (ECLs) in loans is one of the most significant and complex estimates in the preparation of the consolidated financial statements as at June 30, 2019. IFRS 9 became effective on July 1, 2018, which, among other things, modifies the impairment calculation models to consider expected losses instead of incurred losses. As at June 30, 2019, ECLs in loans is a highly subjective area due to the level of judgment applied by Management in the measurement of allowance for impairment on loans, which represent 60% of the Bank's assets. The processes of these models require an increased level of judgment in determining ECLs considering factors such as the identification and classification by stages of the impaired assets or with a significant increase in credit risk, development of the probability of default (PD) and loss given default (LGD) and the use of assumptions such as macroeconomic scenarios and segmentation criteria.	Our work over the estimation of the allowance for ECL in loans has focused on the evaluation of internal controls, as well as the performance of tests of details over credit risk provisions. We have also analyzed the impact of the initial application of IFRS 9. Specifically, our audit procedures in this area included, among others: • We have evaluated the key controls over the estimation process of the ECLs. Involving specialists to determine that the methodologies used by the Bank were appropriate according to the IFRSs' framework. • We tested a sample of significant loans not identified as impaired and challenged the assumptions made by Management on their conclusion that the credit was not impaired through reprocessing the credit rating using the updated credit and financial information of the credit file and considering public information, when available, which showed an impairment event. • We tested a sample for impaired loans and evaluated the measurement of the impairment made by Management through: (a) the value assessment of the cash flows by guarantee through the review of the information, which gives the Bank the right on the guarantee and the review of their independent appraisers, (b) the net value assessment of the of the appraisal and (c) recalculating the value of the ECLs. • Involving specialists to reprocess the methodologies used by Management in determining the allowance for ECLs. • We tested the principal models with respect to: i) methodology utilized for the estimation of the expected loss parameters; ii) methodology used for the generation of the macroeconomic scenarios; iii) information used in the calculation and generation and iv) criteria for significant increase in credit risk and loan staging classification.

Other information

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

Management is responsible for the other supplementary information included in Annexes I, II and III.

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

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

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

Management's Responsibilities and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with corporate governance are responsible for overseeing the Bank's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

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

(Signed) Deloitte

September 27, 2019
Panama, Republic of Panama

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

Consolidated statement of financial position
as at June 30, 2019
(In balboas)

	Notes	2019	2018
Assets			
Cash and cash equivalents	9	169,380,255	143,932,449
Securities purchased under resale agreement	10	1,454,610	-
Financial assets at fair value through profit or loss	11	18,583,184	14,752,516
Financial assets at fair value through other comprehensive income	8, 11	122,728,669	87,056,902
Net loans	8, 12	540,827,931	589,067,494
Investment in other entities	14	7,715,339	6,825,207
Property, furniture, equipment and improvements	15	4,613,930	5,363,919
Intangible assets and goodwill	16	10,836,760	11,132,031
Deferred income tax		14,942	-
Assets foreclosed for sale	17	9,911,580	7,333,308
Other assets	8, 18	9,399,191	18,215,296
Total assets		895,466,391	883,679,122
Liabilities and equity			
Liabilities			
Deposits from customers	8, 19	655,366,688	658,393,024
Deposits from banks	20	26,450,269	23,032,688
Securities sold under repurchase agreements	21	9,108,846	8,412,632
Borrowings	22	35,404,841	29,878,803
Bonds payable	23	43,793,190	40,026,563
Notes payable	24	11,044,142	10,595,734
Provision for expected credit losses commitments and contingencies	35	151,619	-
Deferred income tax		-	484,972
Other liabilities	8, 26	13,284,102	15,597,620
Total liabilities		794,603,697	786,422,036
Equity			
Common shares	27	25,000,000	25,000,000
Additional paid-in capital		31,740,000	35,000,000
Legal reserve		12,826,130	11,058,791
Change in other comprehensive income		387,719	(328,185)
Retained earnings		30,908,845	26,526,480
Total equity		100,862,694	97,257,086
Total liabilities and equity		895,466,391	883,679,122

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, 2019
(In balboas)

	Notes	2019	2018
Interest income	8, 28	50,526,056	45,722,510
Interest expenses	8, 30	(29,551,558)	(26,339,019)
Net financial income		20,974,498	19,383,491
Commission income	31	2,777,693	3,201,436
Brokerage and structuring services	8, 29	14,590,199	12,447,309
Commission expenses	31	(3,372,560)	(2,459,048)
Net gain from commissions and brokerage and structuring services		13,995,332	13,189,697
Realized (loss) gain in financial assets at FVTPL, net		(45,484)	139,947
Unrealized gain (loss) in financial assets at FVTPL, net		70,286	(69,328)
Realized gain in financial assets at FVTOCI		345,654	2,384,496
Income from ordinary activities		35,340,286	35,028,303
Other income	8	685,494	1,295,049
Allowance for expected credit losses		59,472	(406,696)
Allowance for losses on goods available for sale		-	(69,977)
Salaries and employee benefits	8, 32	(13,708,370)	(15,216,366)
Depreciation and amortization	15, 16	(2,057,198)	(2,699,369)
Other expenses	33	(10,592,361)	(9,301,040)
Profit before income tax		9,727,323	8,629,904
Income tax expense	37	(1,627,816)	(1,259,370)
Share of net profit (loss) of associate		890,132	(365,275)
Profit for the year		8,989,639	7,005,259
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Net realized gain in financial assets at FVTOCI transferred to profit or loss		(320,852)	(2,384,496)
Credit risk valuation		73,699	-
Net unrealized gain		963,057	1,901,180
Net changes in financial assets at FVTOCI		715,904	(483,316)
Total comprehensive income		9,705,543	6,521,943

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, 2019
(In balboas)

	Common shares	Additional paid-in capital	Legal reserve	Net changes in other comprehensive income	Retained earnings	Total Equity
Balance as of June 30, 2017	25,000,000	35,000,000	10,219,016	155,131	23,612,555	93,986,702
Profit for the year	-	-	-	-	7,005,259	7,005,259
Interest in associate	-	-	-	-	(368,584)	(368,584)
Net change in the fair value of investments in securities available for sale	-	-	-	(483,316)	-	(483,316)
Total comprehensive income	-	-	-	(483,316)	6,636,675	6,153,359
Other equity transactions:						
Legal reserve	-	-	839,775	-	(839,775)	-
Transactions attributable to the shareholder directly recorded in equity:						
Complementary tax	-	-	-	-	(112,975)	(112,975)
Declared dividends	-	-	-	-	(2,770,000)	(2,770,000)
Balance as of June 30, 2018	25,000,000	35,000,000	11,058,791	(328,185)	26,526,480	97,257,086
Changes for adoption of IFRS 9	-	-	(1,146,166)	-	(1,581,077)	(2,727,243)
Balance as of July 1, 2018	25,000,000	35,000,000	9,912,625	(328,185)	24,945,403	94,529,843
Profit for the year	-	-	-	-	8,989,639	8,989,639
						-
Other comprehensive income:						-
Credit risk valuation	-	-	-	73,699	-	73,699
Net changes in fair value of financial assets at fair value through OCI	-	-	-	642,205	-	642,205
Total comprehensive income for the year	-	-	-	715,904	8,989,639	9,705,543
Transactions attributable to the shareholder directly recorded in equity:						-
Complementary tax	-	-	-	-	(112,692)	(112,692)
Decrease in additional paid capital	-	(3,260,000)	-	-	-	(3,260,000)
Total transactions attributable to the shareholder directly recorded in equity	-	(3,260,000)	-	-	(112,692)	(3,372,692)
Other equity transactions:						
Legal reserve	-	-	2,913,505	-	(2,913,505)	-
Balance as of June 30, 2019	25,000,000	31,740,000	12,826,130	387,719	30,908,845	100,862,694

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, 2019
(In balboas)

	Notes	2019	2018
Cash flows from operating activities:			
Profit for the year		8,989,639	7,005,259
Allowance for expected credit losses		(59,472)	406,696
Depreciation and amortization	15, 16	2,057,198	2,699,369
Income tax expense	37	1,627,816	1,259,370
Realized gain in financial assets to FVTOCI		(345,654)	(2,384,496)
Loss (gain) realized in financial assets to FVTPL		45,484	(139,947)
Gain (loss) unrealized in financial assets to FVTPL		(70,286)	69,328
Share of net (profit) loss of associate		(890,132)	365,275
Interest income		(50,526,056)	(45,722,510)
Interest expenses		29,551,558	26,339,019
Net changes in operating assets and liabilities:			
Increase (decrease) in financial instruments to FVTPL		(3,971,940)	16,212,049
Decrease (increase) in loans receivables		46,051,838	(92,610,901)
Decrease (increase) in other assets		7,327,398	(9,722,295)
Increase in deposits from customers		1,091,424	20,567,679
(Decrease) increase in other liabilities		(4,507,436)	5,633,874
Income tax paid		(1,023,372)	(1,731,379)
Interest received		49,364,980	44,971,732
Interest paid		(30,252,813)	(25,672,458)
Net cash provided by (used in) operating activities		54,460,174	(52,454,336)
Cash flows from investment activities:			
Term deposits in banks with maturities greater than three months		-	2,210,948
Increase (decrease) in demand and restricted time deposits		5,312,829	(3,385,733)
Purchase of financial assets from FVTOCI (2018: availables for sale)		(56,806,449)	(44,878,595)
Proceeds from the sale of financial assets to FVTOCI (2018: availables for sale)		23,192,033	74,821,493
Securities purchased under resale agreements		(1,451,681)	-
Investments in other entities		-	(2,364,922)
Acquisition of intangible assets	16	(795,207)	(833,575)
Acquisition of property, furniture, equipment and improvements, net	15	(216,731)	(165,876)
Net cash used in (provided by) investment activities		(30,765,206)	25,403,740
Cash flows from financing activities:			
Securities sold under repurchase agreements	25	21,226,402	1,898,771
Cancellations of securities sold under repurchase agreement	25	(20,504,992)	
Proceeds from borrowings	25	68,279,299	43,812,386
Payment of borrowings	25	(62,811,388)	(18,809,180)
Bonds payable	25	39,023,776	25,949,654
Redemption of placements/positions	25	(35,213,738)	(17,485,901)
Notes payable	25	10,966,000	10,527,000
Payment of notes payable	25	(10,527,000)	-
Additional paid-in capital		(3,260,000)	-
Dividends paid		-	(2,770,000)
Complementary tax		(112,692)	(112,975)
Net cash provided by financing activities		7,065,667	43,009,755
Net increase in cash and cash equivalents		30,760,635	15,959,159
Cash and cash equivalents at the beginning of the year		106,644,814	90,685,655
Cash and cash equivalents at the end of the year	9	137,405,449	106,644,814
Non-monetary transactions in investment and financing activities:			
Other assets held for sale		2,578,272	3,417,083

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

1. General information

Prival Bank, S.A., together with its subsidiaries (the "Bank"), formerly called Keen Holding, S.A., 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. Through Public Deed No.1082 of January 21, 2010, the name of the company Keen Holding, S.A. was changed to Banco Prival, S.A. (in Spanish) - Prival Bank, S.A. (in English).

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

The main activities of the Bank are described in Note 13.

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

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

2.1 Standards and interpretations adopted with effect on the consolidated financial statements

The following International Financial Reporting Standards (IFRSs) or Interpretations to the International Financial Reporting Standards (IFRICs), effective for the year that began on July 1, 2018, had a significant effect on the consolidated financial statements.

<u>IFRS 9 - Financial Instruments</u>

IFRS 9, issued in November 2009, incorporated new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition. In November 2013, it included the new requirements for hedge accounting.

In July 2014, another revised version of IFRS 9 was issued mainly to include: a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements when introducing a measurement category at "fair value through other comprehensive income" (FVTOCI).

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

IFRS 9 raises significant changes in the assessment of the value impairment of financial instruments and therefore their associated risk. The requirements related to the impairment apply for financial assets measured at amortized cost, and fair value with changes in other comprehensive income (FVTOCI) whose business model has as objective the reception of contractual flows and/or sale (as well as for accounts receivable from leases, loan commitments and financial guarantees).

The Bank, through the methodological implementation plan, made the necessary adaptations to IFRS 9, including the changes required in its provision calculation model. (See Note 5 for an explanation of the impact).

2.2 Standards and interpretations adopted without significant impact on the financial statements

The following International Financial Reporting Standards (IFRSs) or Interpretations to the International Financial Reporting Standards (IFRICs), effective for the year that began on July 1, 2018, had a significant effect on the consolidated financial statements.

IFRS 15 – Revenues from Contracts with Customers

This Standard provides a single model to deal in the accounting with revenue from contracts with customers and replaces revenue recognition guidelines of specific industries. Its core principle is that an entity should recognize revenue when control of the goods or services is transferred to the customer, instead of recognizing revenue when the risks and rewards inherent to the transfer to the customer are under the existing guidance of revenue. The new Standard provides a simple five-step model based on principles to be applied to all contracts with customers.

Due to the nature of the financial operations maintained by the Bank, the adoption of this standard did not have an impact on the consolidated financial statements.

2.3 New and revised standards and interpretations in issue but not yet effective

IFRS 16 - Leases

IFRS 16 –Leases replaces IAS 17. This standard eliminates the classification of leases, and establishes that they must be recognized in a manner similar to financial leases and measured at the present value of future lease payments. 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. The Bank is evaluating the impact that the adoption of IFRS 16 will have on its consolidated statement of financial position and disclosures.
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3. Most significant accounting policies

3.1 Basis of preparation

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

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB for its acronym in English).

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

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 on shares payments that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17 and measurements that have some similarities to fair value but are not considered as such, as the net realizable value in IAS 2 or measuring the value in use of IAS 36.

3.2 Basis of consolidation

3.2.1 Subsidiaries

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

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

The Bank reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank voting rights in an investee are sufficient to give it power, including:

- The size of the Bank’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Bank, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. The total comprehensive result of the subsidiaries is attributed to the owners of the Bank and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance.

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

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

3.2.1.1 Changes in the Bank's ownership interests in existing subsidiaries

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

The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

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 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.2.2 Investment companies and separate vehicles

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

3.2.3 Investments in other entities

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

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

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

When the Bank loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous book value of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date the control is lost is regarded as the fair value on initial recognition of a financial asset for subsequent accounting under IAS 9 or, when applicable, the cost of the initial recognition of an investment in an associate or a joint venture.

3.3 Functional and presentation currency

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

The functional currency of the subsidiaries is:

- United States Dollars for Panama
- Colones for Costa Rica

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

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

- Exchange differences from borrowings denominated in foreign currencies related to assets under construction for productive use future, which are included in the cost of such assets to be considered as an adjustment to interest costs on such loans denominated in currency foreign;

- Exchange differences from transactions related with exchange rate hedges; and

- Exchange differences on monetary items receivable from or payable to related to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are initially recognized in other comprehensive income and reclassified from equity to profit or loss on repayment of non-monetary items.

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

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

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

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

3.4 Financial assets

In the current period, the Bank has adopted IFRS 9 - Financial Instruments. See note 5 for an explanation of the impact. The comparative figures for the year ended June 30, 2018 have not been updated. Therefore, financial instruments in the comparative period are still recorded in accordance with IAS 39 - Financial Instruments: Recognition and Measurement.

3.4.1 <u>Classification - effective policy as of July 1, 2018 (IFRS 9)</u>

In accordance with IFRS 9, the Bank classifies its financial assets and liabilities at the time of initial recognition in the categories of financial assets and financial liabilities as discussed below.

When applying that classification, a financial asset or liability is considered to be held for trading if:

- It is acquired or incurred primarily for the purpose of selling or repurchasing it in the near term, or
- On the initial recognition, it is part of a portfolio of identified financial instruments that are jointly managed and for which there is evidence of a recent actual pattern of obtaining short-term profit-taking, or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

3.4.1.1 Financial assets

The Bank classifies its financial assets as subsequently measured at amortized cost or measured at fair value with changes in profit or loss based on:

- The entity's business model for the management of financial assets.
- The contractual cash flows characteristics of the financial asset.

Financial assets measured at amortized cost

A debt instrument is measured at amortized cost if it is maintained within a business model whose objective is to maintain financial assets to collect cash flows and their contractual terms give rise to cash flows that are only payments of principal and interest on the principal pending payment.

The Bank includes loans receivable, earned income and other accounts receivable in this category.

Financial assets measured at fair value through profit or loss (FVTPL)

A financial asset is measured at fair value through profit or loss if:

- Its contractual terms do not give rise to cash flows on specific dates that are only principal and interest payments (SPPI) on the amount of outstanding capital, or, o
- It is not maintained within a business model whose objective is to collect contractual cash flows, or to collect contractual cash flows and sell, or
- In the initial recognition, it is irrevocably designated as measured in FVTPL and when doing so, it eliminates or significantly reduces an inconsistency in the measurement or recognition that would otherwise arise when measuring assets or liabilities or when recognizing gains and losses.

In this category, the Bank includes:

- Debt instruments: These include investments that are maintained under a business model to manage them on a fair value basis for investment income and fair value gains.

- Instruments held for trading: This category includes capital instruments and debt instruments that are acquired primarily in order to generate a benefit from short-term price fluctuations.

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

A debt instrument is measured at FVTOCI if it meets both of the following conditions and has not been designated as FVTPL:

- The asset is maintained within a business model whose objective is to collect contractual cash flows and sell these financial assets, and;
- The contractual terms of the financial asset establish specific dates for cash flows derived only from payments of principal and interest on the current balance.

3.4.2 Classification – Policy effective before July 1, 2018 (IAS 39)

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

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

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

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

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

Securities bought under resale agreements.

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

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

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

Trading securities

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

Investment in securities available for sale

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

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

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

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

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

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

Loans

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

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

3.4.3 Derecognition of financial assets

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

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

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

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

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

3.5 Financial liabilities and equity instruments issued

3.5.1 Classification - effective policy as of July 1, 2018 (IFRS 9)

Financial liabilities measured at fair value through profit or loss (FVTPL): A financial liability is measured at FVTPL if it meets the definition of held for trading. The Bank includes short-term capital and debt instruments in this category, since they are classified as held for trading.

Financial liabilities measured at amortized cost: This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Bank includes in this category customer deposits, securities sold under repurchase agreements, obligations and other short-term accounts payable.

3.5.2 Classification - policy effective before July 1, 2018 (IAS 39)

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

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

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.

Dividends

Dividends on common shares are recognized in equity in the period in which they have been approved by the Board of Directors.

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.

Interest income and expenses are presented on a net basis only when permitted under IFRSs, or for gains or losses arising from a group of similar transactions.

3.7 Interest

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

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

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

3.8 Commission income

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

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

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

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

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

3.9 Impairment identification and measurement

3.9.1 Policy effective before July 1, 2018 (IFRS 9)

The Bank recognizes a provision by ECLs (Expected Credit Loss) in the following financial instruments that are not measured at FVTPL:

- Loans receivable;
- Investment debt securities;
- Other accounts receivable.

No impairment loss is recognized on equity investments.

Expected credit losses are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL: the expected credit losses resulting from possible default events within 12 months after the reporting date of the financial statements, (referred to as Bucket 1); or
- Full lifetime ECL: these are the expected credit losses resulting from all possible default events during the expected life of the financial asset, (referred to as Bucket 2 and Bucket 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk in that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate (EIR).

Impaired financial assets

A financial asset is considered as impaired when one or more events have occurred that have a detrimental effect on the estimated future cash flows of the financial asset. Impaired financial assets are referred to as Bucket 3 level assets. Evidence of credit impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract, such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider.
- It is probable that the borrower will enter bankruptcy or another financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single specific event; instead, the combined effect of several events may have caused the financial asset to become credit impairment. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or at FVTOCI, are impaired at each reporting date of the consolidated financial statements. To assess whether sovereign and corporate debt instruments are impaired, the Bank considers credit risk ratings. Credit risk ratings are defined using quantitative and qualitative factors that are indicative of loss risk. These factors may vary depending on the nature of the exposure and the type of borrower. With regard to foreign investments, the Bank uses the international risk ratings from Fitch, Standard and Poor's or Moody's.

A loan is considered impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving contractual cash flows has been reduced significantly and there are no other indicators. For financial assets where concessions are contemplated but not granted, the asset is considered impaired when there is observable evidence of credit impairment, including meeting with the definition of default. The definition of default includes the unlikeliness to pay indicators and a back-stop if the amounts are overdue for 90 days or more.

Definition of default

The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability default (PD = probability of default) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

When assessing whether a borrower is in default, the Bank considers the following indicators:

- The borrower is past due more than 90 days on any credit obligation.
- Breach of contractual clauses or legal situation.

The definition of default is tailored to reflect the different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached the limit granted and does not correct his situation in a period of 30 days.

When assessing whether the borrower is unlikely to pay all of his credit obligations, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of asset; for example, in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for consumer loans. Quantitative factors, such as overdue status and non-payment on another obligation of the same counterparty, are key inputs in this analysis.

Significant increase in credit risk

The Bank monitors all financial assets, which are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on ECL during the lifetime.

Economic scenarios form the basis for determining the probability of default on initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether the credit risk has significantly increased.

For corporate lending, forward looking information includes forecasts of economic indicators of the industries in which the Bank's counterparties operate, as well as internally generated information on the customer's payment behavior. The Bank assigns its counterparties to the relevant internal degree of credit risk depending on the quality of its credit. Quantitative information is a primary indicator of a significant increase in credit risk and is based on the change in the debtor's credit rating through the rating as of the initial recognition.

Qualitative factors that indicate a significant increase in credit risk are reflected in the probability of default models on a timely basis. However, the Bank considers some qualitative factors separately to assess whether the credit risk has increased significantly.

Given that a significant increase in credit risk from initial recognition is a relative measure, a given change, in absolute terms, in the probability of default will be more important for a financial instrument with a lower initial probability of default than compared to a financial instrument with a higher probability of default.

Measurement of ECLs

The key inputs used for the measurement of ECLs are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

The measurement of ECLs is derived from internally developed statistical models and other historical data and is adjusted to reflect probability-weighted forward-looking information.

The probability of default (PD) is an estimate of the likelihood of default over a given time horizon. It is estimated at one point of time. The calculation is based on statistical classification models, and assessed using classification tools tailored to the various categories of counterparties and exposures.

These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimate is based on current conditions, adjusted to take into account future conditions that will impact PD.

The loss given default (LGD) is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecast of future collateral valuation taking into account sale discounts, time to realization of collateral and cost of realization of collateral. The LGD models for unsecured assets consider time of recovery and recovery rates. The calculation is based on discounted cash flows, where the cash flows are discounted by the effective interest rate (EIR) of the asset.

Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account the expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on compromised facilities. The Bank's modeling approach reflects the expected changes in the outstanding balance over the lifetime of the loan exposure that is permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios.

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice.

However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit Bank exposure to credit losses for the contractual notice period. For such financial instruments the Bank measures the ECL over the period in which it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period.

The measurement of ECLs is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type;
- Date of initial recognition;
- Remaining term to maturity;
- Industry;
- Geographic location of the borrower;
- Income bracket of the borrower; and
- The value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (LTV = loan-to-value) ratios)

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogeneous exposures.

Presentation of allowance for ECL in the statement of financial position:

Loss allowance for ECL is presented in the consolidated statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVTOCI: no loss allowance is recognized in the consolidated statement of financial position given that the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investment revaluation reserve;

3.9.2 Effective policy before July 1, 2018 (NIC 39)

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

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

The objective evidence that a financial asset is impaired includes:

- Significant financial difficulties of the issuer or debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- For economic or legal reasons relating to the borrower's financial difficulty, the Bank grants a concession to the borrower that the lender would not otherwise consider;

- It is probable that the borrower will enter bankruptcy or another financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

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

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

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

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- Credit rating agencies' assessments.
- The country's ability to access capital markets for new debt issuance.
- The probability of debt being restructured to resulting in holders suffering losses, through voluntary or mandatory debt forgiveness.
- International support mechanisms in place to provide the necessary support as a “lender of last resort” to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of political intent, whether there is the capacity to fulfill the required criteria.

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

Individually assessed

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

The impairment loss is calculated by comparing the current amount of expected future cash flows, discounted at the original effective rate of the loan, with its current carrying amount and the amount of any loss is charged as a provision for losses in the consolidated statement of profit or loss and other comprehensive income. The carrying amount of impaired loans is reduced using an allowance 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 owed according to the contractual terms of the assets being evaluated.

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

Measurement of impairment

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

Reversal of impairment

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

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

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

If, in a subsequent period, the fair value of a debt instrument classified as available for sale for which an impairment has been recognized increases and this increase can be objectively linked to an event occurring after the impairment loss was recognized, then the impairment loss will be reversed through the consolidated statement of profit or loss and other comprehensive income.

3.9.3 Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower has no assets or sources of income that could generate sufficient cash flows to reimburse the amounts subject to the penalty. A write-off constitutes an event of derecognition. The Bank may apply activities that enforce compliance with the financial assets written-off. Recoveries resulting from Bank activities that enforce compliance will result in impairment gains.

3.10 Property , furniture, equipment and improvements

Property, furniture, equipment and improvements are stated at acquisition cost, net of accumulated depreciation, amortization and impairment losses. Major improvements are capitalized, while other minor repairs and maintenance that 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:

Building	
Furniture and office equipment	5 - 10 years
Computer equipment	3 - 10 years
Transportation equipment	3 - 5 years
Improvements	7 - 10 years

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

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

3.11 Repossessed assets for sale

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

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

3.12 Impairment of non-financial assets

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

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

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

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

At June 30, 2019, Management has not identified any impairment of non-financial assets.

3.13 Financial Leases

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

3.14 Business combination

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

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

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 respectively*;*

Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date.

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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

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

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

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

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

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

3.15 Goodwill

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

3.16 Intangible assets

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

Subsequent to their initial recognition, these intangible assets are accounted for at cost less accumulated amortization and any accumulated impairment losses (if any).

3.17 Employee benefits

Panamanian legislation:

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

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

Costa Rican legislation:

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

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

3.18 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.

3.19 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.

3.20 Trust operations

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

3.21 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.

3.22 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 the Board of Directors 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 6).

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

4. Financial risk management

4.1 Objectives of financial risk management

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

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

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

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

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

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

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

Prival Securities Costa Rica and Sociedad Administradora de Fondos de Inversión (SAFI) are regulated by the Costa Rican General Superintendence of Securities (SUGEVAL) which is the public entity responsible for regulating and supervising the operation of the securities markets and their participants.

4.2 Credit Risk

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

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

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

Formulation of credit policies:

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

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

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

Establishment of authorization limits:

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

Exposure limits:

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

Concentration limits

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

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

Maximum limits by counterparty:

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

Compliance review policies:

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

Credit risk management

The Bank performs a qualitative and quantitative analysis of the client, for the qualitative analysis, the industry in which the client performs, the competence of the debtor or counterpart, its references, management, its products, customers, suppliers and operating performance of the company are taken into account. In the quantitative analysis, financial ratios are evaluated, depending on the industry in which the client operates.

The Bank structures the acceptable credit risk levels through the establishment of policies and procedures for a single borrower, group of borrowers, and geographic segment. Exposure to risk is mainly covered by obtaining guarantees.

It is worth mentioning that, as at June 30, 2019, 29.75% (2018: 24.55%) of the loan portfolio was backed by cash deposits. The rest of the portfolio is guaranteed by financial assets, movable and immovable property, bonds or guarantees and other guarantees.

4.2.1 Credit quality analysis

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

	Maximum exposure
2019	
Deposits in banks	168,405,790
Financial assets at fair value through profit or loss	18,583,184
Financial assets at fair value through other comprehensive income	122,728,669
Loan portfolio	540,827,931
Total	850,545,574
2018	
Deposits in banks	143,021,177
Investments in securities available for sale	87,056,902
Investments in trading securities	14,752,516
Loan portfolio	589,067,494
Total	833,898,089

	Maximum exposure	
	2019	**2018**
Credit risk exposure related to off balance operations		
Endorsements and guarantees	7,224,125	11,471,047
Promissory notes	13,707,252	16,756,189
Unused granted credit lines	11,084,275	6,911,819
Total	32,015,652	35,139,055

The table above represents the most critical scenario of credit risk exposure to the Bank at June 30, 2019 regardless of credit guarantees or of another increase of exposure to credit risk.

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

The following table analyzes the credit quality of the loan portfolio at amortized cost and off-balance sheet transactions at June 30, 2019:

Credit porfolio at amortized cost	Bucket 1, 12-month ECL	Bucket 2, lifetime ECL	Bucket 3, lifetime ECL	Total
Corporate				
Rating 1-2	351,560,505	-	174,562	351,735,067
Rating 2-3	59,479,337	6,890,468	1,017,982	67,387,787
Rating NA	49,508,462	-	1,026,188	50,534,650
Gross carrying amount	460,548,304	6,890,468	2,218,732	469,657,504
Allowance for ECL	(1,581,308)	(18,225)	(1,063,357)	(2,662,890)
Carrying amount	458,966,996	6,872,243	1,155,375	466,994,614
Consumer				
Current	23,796,346	-	-	23,796,346
1-30 days of delinquency	2,286,026	-	-	2,286,026
31-60 days of delinquency	-	164,848	-	164,848
61-90 days of delinquency	-	34,734	-	34,734
More than 90 days of delinquency	-	-	547,406	547,406
Gross carrying amount	26,082,372	199,582	547,406	26,829,360
Allowance for ECL	(704,661)	(8,982)	(547,406)	(1,261,049)
Carrying amount	25,377,711	190,600	-	25,568,311
Home				
Current	42,171,573	-	-	42,171,573
1-30 days of delinquency	1,723,587	-	-	1,723,587
31-60 days of delinquency	-	294,684	-	294,684
More than 90 days of delinquency	-	-	626,276	626,276
Gross carrying amount	43,895,160	294,684	626,276	44,816,120
Allowance for ECL	(22,219)	-	-	(22,219)
Carrying amount	43,872,941	294,684	626,276	44,793,901
Credit cards				
Current	1,606,443	-	-	1,606,443
1-30 days of delinquency	132,465	-	-	132,465
31-60 days of delinquency	-	36,481	-	36,481
61-90 days of delinquency	-	20,188	-	20,188
More than 90 days of delinquency	-	-	36,659	36,659
Gross carrying amount	1,738,908	56,669	36,659	1,832,236
Allowance for ECL	(55,742)	(4,783)	(36,659)	(97,184)
Carrying amount	1,683,166	51,886	-	1,735,052
Loan commitments and guarantee contracts				
Rating 1-2	32,015,652	-	-	32,015,652
Gross carrying amount	32,015,652	-	-	32,015,652
Allowance for ECL	(151,619)	-	-	(151,619)
Carrying amount	31,864,033	-	-	31,864,033

The following table analyzes the credit quality of financial assets at fair value through other comprehensive income and their allowance for impairment maintained by the Bank.

2019	12-month ECL	Lifetime ECL without credit impairment	Lifetime ECL with credit impairment	Valuation of the credit risk
Domestic:				
AAA to BBB-	472	-	-	472
BBB to B-	3,776	-	-	3,776
Domestic carrying value	4,248	-	-	4,248
Foreign:				
BB+ to B-	69,451	-	-	69,451
Foreign:	69,451	-	-	69,451
Foreign carrying amount				
Total carrying amount	73,699	-	-	73,699

The table below analyzes the credit quality of financial assets and impairment allowances held by the Bank for these assets as at June 30, 2018:

	2018	
	Loans	Investments in securities
Maximum Exposure		
Carrying amount	589,067,494	101,809,418
At amortized cost		
Risk level		
Range 1 - Normal	570,261,622	101,809,418
Range 2 - Special mention	11,982,045	-
Range 3 - Sub-normal	300,248	-
Range 4 - Doubtful	177,761	-
Range 5 - Unrecoverable	2,877,884	-
Gross amount	585,599,560	101,809,418
Allowance for loans	(1,587,934)	-
Unearned interest and commissions	(1,348,333)	-
Carrying amount, net	582,663,293	101,809,418
Renegotiated loans		
Gross amount	6,585,877	-
Impaired amount	4,993,579	-
Allowance for loans	(657,123)	-
Carrying amount, net	5,928,754	-
Financial leasings		
Risk level		
Range 1 - Normal	298,495	-
Range 2 - Special mention	176,983	-
Gross amount	475,478	-
Allowance for loans	-	-
Unearned interest and commissions	(31)	-
Carrying amount, net	475,447	-

	2018	
	Loans	**Investment in**
Investment in securities available for sale		
Range 1 - Normal		
Carrying amount	-	87,056,902
Carrying amount, net	-	87,056,902
Investment in securities with changes in profit or loss		
Range 1 - Normal		
Carrying amount	-	14,752,516
Carrying amount	-	14,752,516
Not delinquent nor impaired		
Range 1 - normal	573,252,581	101,809,418
	573,252,581	101,809,418
Delinquent but not impaired		
30 to 60 days	1,394,514	-
61 to 90 days	765,550	-
91 to 120 days	587	-
121 to 180 days	271,119	-
more than 181 days	874,759	-
Sub-total	3,306,529	-
Individually impaired		
Range 2 - special mention	12,472,081	-
Range 3 - sub-normal	825,232	-
Range 4 - doubtful	710,158	-
Range 5 - uncollectible	2,094,334	-
Sub-total	16,101,805	-
Impairment rallowance		
Individual	(2,189,181)	-
Collective	(55,876)	-
Total impairment allowance	(2,245,057)	-
Unearned interest and commissions	(1,348,364)	-
Total	589,067,494	101,809,418
Off-balance sheet operations		
Range 1 - normal	35,092,411	-
Range 2 - special mention	46,644	-
Total	35,139,055	-

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

- *Impairment of loans and investments* - Impairment of loans and investments is determined by considering the amount of principal and interest, based on the breach of contractual terms.
- *Past due loans but not impaired* - Refers to those loans where contractual payment of principal or interest is past due, but that the Bank considers as not impaired based on the level of guarantees available to cover the loan balance.

- *Renegotiated loans* - These are loans mainly due to material difficulties in the repayment ability of the debtor, has been subject to extensions, payment arrangement, restructuring, refinancing and any other form that causes variations in time and/or amount or other terms and conditions of the original contract, which respond to difficulties in the debtor's capacity to pay.

- *Write-off policy* - The Bank periodically reviews its impaired portfolio to identify those credits that merit being written off based on the uncollectibility of the balance and even for the amount in which the real guarantees do not cover it. For unsecured consumer loans, write-offs are made based on the level of accumulated delinquency. In the case of guaranteed housing and consumer loans, the write-off is made when the guarantee is executed and for the estimated amounts in which they do not cover the carrying amount of the credit.

The information in the following table reflects the evaluation of the composition of the Bank's assets. As at June 30, 2019, the Bank had placed B/.15,200,000 (58%) (2018: B/.36,500,813 (86%)) in institutions with investment grade or cash guarantee.

The Bank's portfolio consists of high liquidity investments with AAA rating up to BBB- that can be converted into cash in a period of less than one week, according to the international risk rating agencies recognized as Standard & Poor's, Moody's and Fitch Ratings.

	2019		2018	
	Financial assets at FVTPL	Financial assets at FVTOCI	Available for sale	Trading securities
Maximun exposure				
Carrying amount	18,583,184	122,728,668	87,056,902	14,752,516
Investment grade	18,525,448	47,462,789	26,088,808	14,246,751
Standard monitoring	57,736	75,265,879	60,968,094	505,765
Total	18,583,184	122,728,668	87,056,902	14,752,516

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

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

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

4.2.2 Collateral and other guarantees against credit exposures

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

Guarantees to reduce credit risk and their financial effect

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

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

	Exposure % subject to collateral requirements		Type of guarantee
	2019	**2018**	
Loan portfolio	74%	71%	Cash, properties and others

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

4.2.3 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.

	2019	**2018**
Residential mortgage loans :		
Less than 50%	8,884,753	10,229,871
51% - 70%	13,492,122	15,026,258
71% - 90%	9,511,866	9,466,793
More than 90%	7,531,304	7,770,977
Total	39,420,045	42,493,899

4.2.4 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:

	2019		2018	
	Loans	**Financial assets at fair value**	**Loans**	**Investmets in securities**
Concentration by sector				
Corporate	472,300,934	121,676,301	521,697,762	63,588,126
Consumer	73,699,213	-	70,963,153	-
Government	-	19,635,552	-	38,221,292
	546,000,147	141,311,853	592,660,915	101,809,418
Geographical concentration:				
Panama	311,984,327	78,353,025	331,948,144	55,189,505
Latin America and Caribbean	226,479,473	33,331,675	252,086,538	25,377,895
North America	7,479,593	26,278,982	8,544,817	18,585,143
Europe, Asia and Oceania	56,754	3,348,171	81,416	2,656,875
	546,000,147	141,311,853	592,660,915	101,809,418

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

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

As of June 30, the provision for expected credit loss by type of financial instrument is detailed below:

	2019	2018
Credit portfolio at amortized cost	4,043,342	2,245,057
Commitments and contingencies	151,619	-
Financial assets	73,699	-
Placements	31,370	-
Total	4,300,030	2,245,057

4.3 Liquidity risk

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

Management process of liquidity risk

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

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

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

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

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

Liquidity risk exposure

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

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

	2019	2018
At end of the year	**52%**	**48%**
Year average	44%	44%
Year maximum	52%	49%
Year minimum	38%	40%

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

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

2019	Up to 1 month	From 1 to 3 months	Up to 1 year	From 1 to 5 years	More than 5 years	Total
Financial assets						
Deposits in banks	168,405,790	-	-	-	-	168,405,790
Securities purchased under						
resale agreement	1,454,610	-	-	-	-	1,454,610
Financial assets at FVTPL	18,525,284	-	-	164	57,736	18,583,184
Financial assets at FVTOCI	34,497,131	5,997,741	15,106,224	32,528,107	34,599,466	122,728,669
Loans	34,974,195	48,485,564	180,506,541	172,357,413	109,676,434	546,000,147
Total assets	257,857,010	54,483,305	195,612,765	204,885,684	144,333,636	857,172,400
Financial liabilities						
Client deposits	329,375,750	49,318,999	196,813,657	79,858,282	-	655,366,688
Interbank deposits	26,450,269	-	-	-	-	26,450,269
Securities sold under						
repurchase agreements	544,588	8,564,258	-	-	-	9,108,846
Financings received	1,891,366	3,581,024	27,494,082	2,438,369	-	35,404,841
Notes payable	-	-	11,044,142	-	-	11,044,142
Bonds payable	-	2,624,887	21,193,333	19,974,970	-	43,793,190
Total liabilities	358,261,973	64,089,168	256,545,214	102,271,621	-	781,167,976
Net position	(100,404,963)	(9,605,863)	(60,932,449)	102,614,063	144,333,636	76,004,424

2018	Up to 1 month	From 1 to 3 months	Up to 1 year	From 1 to 5 years	More than 5 years	Total
Financial assets						
Deposits in banks	141,967,452	1,053,725	-	-	-	143,021,177
Investments in securities:						
For trading	5,100,253	-	-	6,690,116	2,962,147	14,752,516
Available for sale	20,855,948	5,999,093	394,608	33,503,358	26,303,895	87,056,902
Loans	69,356,114	47,683,016	168,390,424	239,618,802	67,612,559	592,660,915
Total assets	237,279,767	54,735,834	168,785,032	279,812,276	96,878,601	837,491,510
Financial liabilities						
Client deposits	317,771,238	49,523,894	227,842,858	63,255,034	-	658,393,024
Interbank deposits	23,032,688	-	-	-	-	23,032,688
Securities sold under						
repurchase agreements	1,654,072	6,758,560	-	-	-	8,412,632
Financings received	844,210	831,024	27,691,104	512,465	-	29,878,803
Notes payable	-	-	10,595,734	-	-	10,595,734
Bonds payable	-	-	35,404,869	4,621,694	-	40,026,563
total liabilities	343,302,208	57,113,478	301,534,565	68,389,193	-	770,339,444
Net position	(106,022,441)	(2,377,644)	(132,749,533)	211,423,083	96,878,601	67,152,066

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

2019	Carrying amount	Undiscounted cash flows	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Financial liabilities						
Deposits received	655,366,688	675,560,698	587,393,587	38,643,713	48,441,907	1,081,491
Interbank deposits	26,450,269	26,511,344	26,511,344	-	-	-
Securities sold under repurchase agreementss	9,108,846	9,300,430	9,300,430			-
Financing received	35,404,841	36,155,016	35,599,405	484,443	71,168	-
Documents payable	11,044,142	11,301,267	11,301,267	-	-	-
Bonds payable	43,793,190	46,478,777	24,785,885	21,692,892	-	-
Total financial liabilities	781,167,976	805,307,532	694,891,918	60,821,048	48,513,075	1,081,491

2018	Carrying amount	Undiscounted cash flows	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
Financial liabilities						
Deposits received	658,393,024	679,768,448	607,597,223	43,504,824	28,666,401	-
Interbank deposits	23,032,688	23,043,450	23,043,450	-	-	-
Securities sold under repurchase agreementss	8,412,632	8,430,823	8,430,823	-	-	-
Financing received	29,878,803	30,631,398	30,083,930	351,425	196,043	-
Documents payable	10,595,734	10,824,550	10,824,550	-	-	-
Bonds payable	40,026,563	40,026,562	-	40,026,562	-	-
Total financial liabilities	770,339,444	792,725,231	679,979,976	83,882,811	28,862,444	-

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.

4.3.1 Financial assets available to support future funding

In Management's opinion, the investment portfolio and other financial assets of the Bank include highly liquid investments (rated AAA up to BBB-) for B/.21,825,944 (2018: B/.19,385,849)), which can be converted into cash. in a period of less than a week.

In addition, the Bank maintains contingent funding lines. These lines are guaranteed with the Bank's own investments and are adjusted according to the composition of the securities held with these entities. At June 30, 2019 y 2018, these lines had an available value of B/.25,000,000.

4.3.2 Financial assets pledged as collateral

Total financial assets recognized in the consolidated statement of financial position that have been pledged as collateral for liabilities at June 30, 2019 amount to B/.10,151,187 (2018: B/.10,443,664.

At June 30, 2018, the fair value of financial assets accepted as collateral that the Bank is permitted to sell or repledge in case of default amounted to B/.15,980,936.

4.4 Market Risk

It is the risk that the value of the Bank's financial asset is reduced 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.

<u>Market risk management</u>*:*

The Board of Directors of the Bank establish and approve the policies and global limits of exposure to investments established in the Investment Manual 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, specifying the instruments to be included and their credit risk rating.

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

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

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

<u>Exposure to market risk</u>*:*

The portfolios of financial assets measured at FVTPL and FVTOCI of the Bank are intended primarily to maintain an inventory of securities to meet the demand of its customers of private banking investments and Prival Securities, Inc. In addition, the Bank's investment policies provide a limit up to B/.15,000,000 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 asset 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 comes neither from financial assets that are not monetary items, nor from financial assets denominated in the functional currency of each of the countries where the subsidiaries are settled.

- Interest rate risk of the cash flow and fair value: The interest rate risk of the cash flow and interest rate risk of fair value are the risks that future cash flows and the value of a financial asset will fluctuate because of changes in market interest rates.

4.4.1 Exchange rate risk

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

	2019				
	Colones expressed in USD	**Euros expressed in USD**	**CHF expressed in USD**	**Other currencies expressed in USD**	**Total**
Exchange rate	**576.72**	**1.1371**	**0.976**		
Deposits in banks	6,079,286	23,568,813	8,666,438	1,089,333	39,403,870
Financial instruments	11,196,100	3,348,170	-	-	14,544,270
Securities sold under repurchase agreements	1,451,681	-	-	-	1,451,681
Loans	31,821,626	-	-	-	31,821,626
Total financial assets	50,548,693	26,916,983	8,666,438	1,089,333	87,221,447
Customers' deposits	40,287,183	23,159,147	8,733,214	1,085,228	73,264,772
Securities sold under repurchase agreements	177,179	-	-	-	- 177,179
Total financial liabilities	40,464,362	23,159,147	8,733,214	1,085,228	73,441,951
Total net currency positions	**10,084,331**	**3,757,836**	**(66,776)**	**4,105**	**13,779,496**

	2018				
	Colones expressed in USD	**Euros expressed in USD**	**CHF expressed in USD**	**Other currencies expressed in USD**	**Total**
Exchange rate	**563.44**	**1.1658**	**0.9931**		
Deposits in banks	9,420,869	11,266,548	4,069,302	48,112	24,804,831
Investments in securities	6,938,304	2,556,976	-	-	9,495,280
Loans	45,276,348	-	-	-	45,276,348
Total financial assets	61,635,521	13,823,524	4,069,302	48,112	79,576,459
Customers' deposits	43,029,999	10,711,948	3,937,166	-	57,679,113
Securities sold under repurchase agreements	704,916	-	-	-	- 704,916
Borrowings	798,901	-	-	-	798,901
Bonds payable	8,110,734	-	-	-	8,110,734
Total financial liabilities	52,644,550	10,711,948	3,937,166	-	67,293,664
Total net currency positions	**8,990,971**	**3,111,576**	**132,136**	**48,112**	**12,282,795**

4.4.2 Interest rate risk

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

2019	**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	168,405,790	-	-	-	-	168,405,790
Securities sold under repurchase agreements	1,454,610	-	-	-	-	1,454,610
Financial assets at FVTPL	18,525,284	-	-	164	57,736	18,583,184
Financial assets at FVTOCI	34,497,131	5,997,741	15,106,224	32,528,107	34,599,466	122,728,669
Loans	34,974,195	48,485,564	180,506,541	172,357,413	109,676,434	546,000,147
Total financial assets	257,857,010	54,483,305	195,612,765	204,885,684	144,333,636	857,172,400
Financial liabilities:						
Deposits from customers	329,375,750	49,318,999	196,813,657	79,858,282	-	655,366,688
Deposits from banks	26,450,269	-	-	-	-	26,450,269
Securities sold under repurchase agreements	544,588	8,564,258	-	-	-	9,108,846
Borrowings	1,891,366	3,581,024	27,494,082	2,438,369	-	35,404,841
Notes payable	-	-	11,044,142	-	-	11,044,142
Bonds payable	-	2,624,887	21,193,333	19,974,970	-	43,793,190
Total financial liabilities	358,261,973	64,089,168	256,545,214	102,271,621	-	781,167,976
Total interest rate sensitivity	(100,404,963)	(9,605,863)	(60,932,449)	102,614,063	144,333,636	76,004,424

2018	**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	141,967,452	1,053,725	-	-	-	143,021,177
Investment in securities:						
Marketable	5,100,253	-	-	6,690,116	2,962,147	14,752,516
Available for sale	20,855,948	5,999,093	394,608	33,503,358	26,303,895	87,056,902
Loans	69,356,114	47,683,016	168,390,424	239,618,802	67,612,559	592,660,915
Total financial assets	237,279,767	54,735,834	168,785,032	279,812,276	96,878,601	837,491,510
Financial liabilities:						
Deposits from customers	317,771,238	49,523,894	227,842,858	63,255,034	-	658,393,024
Deposits from banks	23,032,688	-	-	-	-	23,032,688
Securities sold under repurchase agreements	1,654,072	6,758,560	-	-	-	8,412,632
Borrowings	844,210	831,024	27,691,104	512,465	-	29,878,803
Notes payable	-	-	10,595,734	-	-	10,595,734
Bonds payable	-	-	35,404,869	4,621,694	-	40,026,563
Total financial liabilities	343,302,208	57,113,478	301,534,565	68,389,193	-	770,339,444
Total interest rate sensitivity	(106,022,441)	(2,377,644)	(132,749,533)	211,423,083	96,878,601	67,152,066

4.4.2.1 Sensitivity to interest rates

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

	Sensitivity of net equity in relation to movement of interest rates			
	Increase of 50 bps	Decrease of 50 bps	Increase of 100 bps	Decrease of 100 bps
2019				
As at June 30	(15,389,086)	15,560,967	(7,652,360)	7,694,690
Average for the year	(16,564,533)	16,726,375	(8,296,916)	8,337,320
Maximum for the year	(12,998,779)	19,808,784	(6,514,608)	9,879,110
Minimum for the year	(19,609,533)	13,122,371	(9,829,301)	6,545,504
2018				
As at June 30	(6,032,026)	6,032,026	(12,064,053)	12,064,053
Average for the year	(6,089,358)	6,089,358	(12,178,716)	12,178,716
Maximum for the year	(3,731,186)	3,731,186	(7,462,373)	7,462,373
Minimum for the year	(8,445,849)	8,445,849	(16,891,698)	16,891,698

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

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

4.5 Operational risk

It is the risk of potential losses, direct or indirect, relating to Bank processing, personnel, technology and infrastructure, and external factors that are unrelated to credit, market and liquidity, such as those from legal and regulatory requirements and the behavior of generally accepted corporate standards.

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

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

The purpose of operational risk management is to:

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

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

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

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 based on risk-weighted assets.

The Bank's Management, based on guidelines and techniques developed by the Superintendency of Banks of Panama, monitors the capital adequacy and the use of regulatory capital. 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 1-2015 of February 3, 2015 and amended by Agreement 13-2015 of December 24, 2015. The Bank has capital funds of 13.45% (2018:12.72%) on its weighted risk-based assets.

5. Changes in significant accounting policies

The Bank has initially adopted IFRS 9 Financial Instruments as of July 1, 2018. Several other new regulations are effective as of July 1, 2018, but do not have a material effect on the Bank's financial statements. The effect of the initial application of these standards is mainly attributed to the following:

- An increase on impairment losses recognized by financial assets.

5.1 IFRS 9 Financial instruments

IFRS 9 establishes requirements to recognize and measure financial assets, financial liabilities and some contracts for the sale of non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The following table summarizes the net tax impact of the transition to IFRS 9 on the initial balance of reserves and accumulated earnings.

Assets	**Consolidated statement of financial position as at 06/30/2018 (IAS 39)**	**Classification and measurement of financial instruments**	**Impairment**	**Consolidated opening statement of financial position (IFRS 9)**
Cash and cash equivalents	143,932,449	-	(16,864)	143,915,585
Trading investments	14,752,516	(14,752,516)	-	-
Investments available for sale	87,056,902	(87,056,902)		-
Financial assets at fair value through				-
profit or loss	-	14,752,516	-	14,752,516
Financial assets at fair value through	-			
other comprehensive income	-	87,056,902	(26,413)	87,030,489
Credit portfolio	562,660,915	-	(3,107,029)	559,553,886
Deferred tax assets	-	-	726,405	726,405
Liabilities				
Provision for expected credit losses, commitments and contingencies	-	-	(303,342)	(303,342)
Total impact as at July 1, 2018	808,402,782	-	(2,727,243)	805,675,539
Equity:				
Legal reserve	11,058,791		(1,146,166)	9,912,625
Accumulated earnings	26,526,480		(2,307,482)	24,218,998
Deferred tax	-	-	726,405	726,405
Total impact as at July 1, 2018	26,526,480	-	(2,727,243)	24,945,403

5.2 Classification and Measurement of financial assets and liabilities

IFRS 9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous categories of IAS 39 for financial assets held to maturity, loans and accounts receivable and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Bank's accounting policies, related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is detailed below:

Under IFRS 9, at the time of initial recognition, a financial asset is classified as measured at: amortized cost: FVTOCI - debt investment; FVTOCI - equity instrument; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- The asset is held within a business model whose objective is to collect the contractual cash flows and
- The 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 (SPPI).

A debt instrument is measured at FVTOCI if it meets both of the following conditions and has not been designated as FVTPL:

- The asset is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and;
- The 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.

Upon initial recognition of a capital investment that is not held for trading, the Bank may irrevocably choose to present subsequent changes in the fair value of the investment in OCI (Other Comprehensive Income). This choice is made for each investment.

All financial assets not classified as measured at amortized cost or FVTOCI as described above are measured at FVTPL. In the initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or FVTOCI, as well as FVTPL, if doing so eliminates or significantly reduces an accounting imbalance that would arise otherwise.

A financial asset (unless it is a commercial credit without a significant financial component that is initially measured at the transaction price) is initially measured at fair value plus, for an item that is not an FVTPL, the transaction costs that are directly attributable to its acquisition.

The following accounting policies are applied to the subsequent measurement of financial assets:

<u>Financial assets at FVTPL</u>: these assets are subsequently measured at fair value. Net gains and losses, including interest or dividend income, are recognized in profit or loss.

<u>Financial assets at amortized cost:</u> these assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss caused by derecognition is recognized in profit or loss.

<u>Debt investment at FVTOCI</u>: these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net income and losses are recognized in OCI. In derecognition, the gains and losses accumulated in OCI are reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets as of July 1, 2018 relates only to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Bank's financial asset as of July 1, 2018.

Financial assets	Original classification under IAS 39 Standard	New classification under IFRS 9	carrying value under IAS 39 Standard 06/30/2018	New carrying value under IFRS 9 Standard 7/01/2018
Private debt titles	Trading securities	FVTPL	324,662	324,662
Government debt titles	Trading securities	FVTPL	9,327,601	9,327,601
Mutual funds	Trading securities	FVTPL	5,100,253	5,100,253
Government debt titles	Available for sale	FVTOCI	28,456,516	28,456,516
Private debt titles	Available for sale	FVTOCI	25,832,465	25,832,465
Mutual funds	Available for sale	FVTOCI	1,856,090	1,856,090
Shares	Available for sale	FVTOCI	30,911,831	30,911,831
Total			101,809,418	101,809,418

a. Private and government corporate debt instruments classified as available for sale under IAS 39 are maintained by the Bank's treasury unit in a separate portfolio to provide interest income, but may be sold to meet liquidity requirements that arise in the normal course of business. The Bank considers that these securities are maintained within a commercial model whose objective is achieved both through the collection of contractual cash flows and through the sale of securities. The contractual conditions of these financial assets give rise, on specific dates, to cash flows that are only payments of capital and interest on the amount of outstanding capital. Therefore, these assets have been classified as financial assets at FVTOCI according to IFRS 9.

5.3 Impairment of financial assets

IFRS 9 replaces the loss model incurred in IAS 39 with an expected credit loss model (ECL). The new impairment model applies to financial assets measured at amortized cost, contractual assets and debt investments at FVTOCI, but not to investments in equity instruments. Credit losses are recognized earlier under IFRS 9 than under IAS 39.

With the exception of financial assets with a significant increase in credit risk (which are considered separately), ECL is required to be measured through a loss allowance at an amount equal to:

- 12-month ECL: the expected credit losses resulting from possible default events within 12 months after the reporting date of the financial statements, (referred to as Bucket 1); or
- Full lifetime ECL: these are the expected credit losses resulting from all possible default events during the expected life of the financial asset, (referred to as Bucket 2 and Bucket 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk in that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

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

All this requires considerable judgment, both in modeling for the estimation of expected losses and in forecasts, on how economic factors affect such losses, which must be carried out on a basis weighted by their probability.

Financial assets with increase in credit risk

A financial asset is considered as impaired when one or more events have occurred that have a detrimental effect on the estimated future cash flows of the financial asset. Impaired financial assets are referred to as Bucket 3 level assets. Evidence of credit impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract, such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider.
- It is probable that the borrower will enter bankruptcy or another financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

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

A loan is considered impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving contractual cash flows has been reduced significantly and there are no other indicators. For financial assets where concessions are contemplated but not granted, the asset is considered impaired when there is observable evidence of credit impairment, including meeting with the definition of default. The definition of default includes the unlikeliness to pay indicators and a back-stop if the amounts are overdue for 90 days or more.

Presentation of the loss

The allowance for losses for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at FVTOCI, the loss allowance is recognized in other comprehensive income, instead of reducing the carrying amount of the asset.

Impact of new impairment model

The following table provides information about credit risk exposure and ECL for loans receivable as of June 30, 2019:

June 30, 2019	Weighted average loss rate	Capital	Expected credit loss	Impaired credit
Corporate				
Bucket 1	0.34%	460,548,303	1,581,308	NO
Bucket 2	0.26%	6,890,468	18,225	NO
Bucket 3	47.93%	2,218,732	1,063,357	YES
Total	0.57%	469,657,503	2,662,890	
Consumer				
Current	1.54%	23,796,346	366,252	NO
1-30 days delinquency	1.35%	2,286,026	30,807	NO
30-60 days delinquency	3.98%	164,848	6,557	NO
60-90 days delinquency	6.98%	34,734	2,425	NO
More than 90 days delinquency		547,406	855,008	YES
	4.70%	26,829,360	1,261,049	
Home				
Current	0.05%	42,171,573	22,219	NO
1-30 days delinquency	0.00%	1,723,587	-	NO
30-60 days delinquency	0.00%	294,684	-	NO
More than 90 days delinquency	0.00%	626,276	-	YES
	0.05%	44,816,120	22,219	
Credit cards				
Current	2.54%	1,606,443	40,796	NO
1-30 days delinquency	0.05%	132,465	68	NO
30-60 days delinquency	12.31%	36,481	4,490	NO
60-90 days delinquency	1.45%	20,188	294	NO
More than 90 days delinquency		36,659	51,537	YES
	5.30%	1,832,236	97,185	
Off-setting transactions and cards without consumption	0.48%	31,864,033	151,619	

6. 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.

6.1 Financial instruments measured at fair value

Fair value hierarchy

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

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

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

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

Financial assets at FVTOCI are carried at fair value based on quoted market prices when available, or if they are not available, based on 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, financial assets with FVTOCI changes 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 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).

Measurement of financial assets at fair value through profit or loss

	2019	Level 1	Level 2	Level 3
Private debt securities	164	-	-	164
Mutual funds	18,525,284	-	18,525,284	-
Government debt securities	57,736	-	-	57,736
	18,583,184	-	18,525,284	57,900

Measurement of financial assets at fair value through other comprehensive income

	2019	Level 1	Level 2	Level 3
Governmental debt securities	24,822,494	24,795,806	26,688	-
Private debt securities	55,277,158	16,562,257	12,677	38,702,224
Mutual funds	4,845,645	-	3,175,002	1,670,643
Listed shares	531,498	-	105,114	426,384
Unlisted shares	24,515,808	-	-	24,515,808
Preferred shares	12,736,066	-	-	12,736,066
	122,728,669	41,358,063	3,319,481	78,051,125

Fair value measurement of trading securities:

	2018	Level 1	Level 2	Level 3
Private debt securities	324,662	314,328	187	10,147
Mutual funds	5,100,253	1,000,000	4,100,253	-
Government debt securities	9,327,601	6,679,970	2,556,449	91,182
	14,752,516	7,994,298	6,656,889	101,329

Fair value measurement of securities available for sale:

	2018	Level 1	Level 2	Level 3
Governmental debt securities	28,456,516	28,440,826	15,690	-
Private debt securities	25,832,465	-	8,885,811	16,946,654
Mutual funds	1,856,090	-	1,856,090	-
Listed shares	94,320	-	94,320	-
Unlisted shares	11,566,709	-	-	11,566,709
	67,806,100	28,440,826	10,851,911	28,513,363

The Bank maintains equity securities for B/.7,338,687 and preferred shares for B/.11,912,115, which are held at cost since there is no active market and their fair value cannot be reliably determined.

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

Instruments	Valuation techniques	Non-observable inputs used	Relationship between non-observable inputs and fair value
Private debt securities	Discounted cash flows	Credit margin	If the credit margin increases, the price decrease and viceversa.

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

Instruments	Valuation techniques	Inputs used	Level
Governmental debt securities	Market prices	Observable market prices	1 - 2
Private debt securities	Market prices	Observable market prices	1 - 2
Mutual funds	Net asset value	Observable market prices	1 - 2
Corporate common shares	Market prices	Observable market prices	1 - 2

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

The movement of financial instruments classified in Level 3 is as follows:

	2019	2018
Balance at the beginning of the year	47,865,494	53,933,549
Purchases and additions	27,335,034	8,297,411
Category reclassifications	6,316,967	420,914
Changes in fair value	(1,597,876)	52,021
Sales and redemptions	(4,006,530)	(15,958,255)
Accrued interest receivable	2,195,936	1,119,854
Balance at the end of the year	78,109,025	47,865,494

During 2019, investments classified as available for sale were transferred from level 2 to level 3 as certain inputs used to determine their fair value became non-observable.

During 2019, investments classified as financial assets FVTOCI (2018: available for sale), were transferred from level 2 to level 3 since certain inputs used to determine their fair value became non-observable.

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

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

	Fair value hierarchy				
2019	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying value**
Financial assets:					
Deposits in banks	-	-	168,366,822	168,366,822	168,405,790
Loans	-	-	543,103,508	543,103,508	546,000,147
Total financial assets	-	-	711,470,330	711,470,330	714,405,937
Financial liabilities:					
Deposits from customers	-	-	661,808,550	661,808,550	655,366,688
Deposits from banks	-	-	26,450,269	26,450,269	26,450,269
Securities sold under repurchase agreements	-	9,110,887	-	9,110,887	9,108,846
Borrowings	-	-	34,589,193	34,589,193	35,404,841
Notes payable	-	-	11,044,142	11,044,142	11,044,142
Bonds payable	-	48,847,508	-	48,847,508	43,793,190
Total financial liabilities	-	57,958,395	733,892,154	791,850,549	781,167,976

	Fair value hierarchy				
2018	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying value**
Financial assets:					
Deposits in banks	-	-	143,574,578	143,574,578	143,021,177
Loans	-	-	596,403,814	596,403,814	592,660,915
Total financial assets	-	-	739,978,392	739,978,392	735,682,092
Financial liabilities:					
Deposits from customers	-	-	664,817,521	664,817,521	658,393,024
Deposits from banks	-	-	23,032,688	23,032,688	23,032,688
Securities sold under repurchase agreements	-	8,414,384	-	8,414,384	8,412,632
Borrowings	-	-	29,780,677	29,780,677	29,878,803
Notes payable	-	-	10,595,734	10,595,734	10,595,734
Bonds payable	-	41,111,732	-	41,111,732	40,026,563
Total financial liabilities	-	49,526,116	728,226,620	777,752,736	770,339,444

Assumptions used to determine the fair value of assets and liabilities

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

Deposits in banks

Discounted cash flows using the current market interest rates of 2.07% (2018: 1.63%) for placements or new debt financings with similar remaining maturities.

Securities purchased/sold under repurchase/resale agreements

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

Loans

The estimated fair value for loans represents the amount of estimated future discounted cash flows receivable. The portfolio's cash flows are discounted at a present value at a rate of 7.1879% (2018: 6.97%) for the consumer portfolio, 6.638% (2018: 6.61%) for the corporate portfolio and 7.188% (2018: 7.25%) for financial leasing.

Deposits from customers

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

Bonds payable

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

Borrowings

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

7. 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.

7.1 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.

7.1.1 Expected credit losses

The Bank reviews the 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, the Bank uses several models and assumptions in the estimation of ECLs. The judgment is applied in the identification of the most appropriate model for each type of asset, as well as to determine the assumptions used in those models, including the assumptions that relate to the key credit risk guides. See note 3 for more details on ECLs.

The following are key estimates that Management has used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements (refer to note 3 for more details):

- Probability of default: PD constitutes a key input in the measurement of PD, it is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss given default: LGD loss is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, taking into account cash flows from the collateral and the integral credit improvements.
- Significant increase in credit risk: As explained in Note 3, ECLs are measured as a provision equal to the 12-month ECL for stage 1 assets or full lifetime ECL for the assets of stage 2 or the assets of stage 3. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition.

7.1.2 Fair value of financial assets

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. The ALCO Committee approves all models before they are used and are calibrated to ensure that the output values adequately estimate the fair value.

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

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

The Bank’s treasury closely cooperating with qualified external appraisers establishes 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, directly or indirectly.

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

Valuation techniques used to determine the fair values of Level 3

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

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

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

8. Balances and transactions with related parties

A summary of balances and transaction with related parties included in the consolidated financial statement is as follows:

2019	Directors and key management personnel	Related companies	Associated companies	Total
Assets				
Investments in other entities	-	-	7,715,339	7,715,339
Investments available for sale	-	-	12,113,506	12,113,506
Loans	10,497,127	63,460,583	-	73,957,710
Other assets	-	-	256,780	256,780
Liabilities				
Deposits from customers	7,853,087	46,205,068	8,959,041	63,017,196
Other liabilities	-	18,115	24,885	43,000
Income and expenses				
Interest income	253,509	2,378,306	1,216,853	3,848,668
Interest expenses	71,636	959,048	-	1,030,684
Commission income	-	43,576	3,071,693	3,115,269
Benefits for key Management personnel:				
Salaries and other wages	3,128,571	-	-	3,128,571

2018	Directors and key management personnel	Related companies	Associated companies	Total
Assets				
Investments in other entities	-	-	6,825,207	6,825,207
Investments available for sale	-	-	11,912,115	11,912,115
Loans	7,026,160	59,917,900	-	66,944,060
Other assets	-	28,890	242,381	271,271
Liabilities				
Deposits from customers	3,145,431	43,117,682	6,969,253	53,232,366
Other liabilities	-	19,754	25,836	45,590
Income and expenses				
Interest income	261,837	2,825,272	820,200	3,907,309
Interest expenses	72,668	944,418	-	1,017,086
Commission income	38,596	-	2,933,384	2,971,980
Benefits for key Management personnel:				
Salaries and other wages	3,424,441	-	-	3,424,441

Loans to related companies during the year amounted to B/.63,460,583 (2018: B/.59,917,900), at interest rates ranging between 3.75% and 18% (2018: 3.75% and 18%), with multiple maturities until 2046.

Loans granted to directors and key management personnel during the year amounted to B/.10,497,127 (2018: B/.7,026,160, at interest rates ranging between 3.75% and 6.75%, with multiple maturities until 2045.

Cash-guaranteed loan balances to related companies amounted to B/.37,794,686 (2018: B/.46,229,783) and mortgage-guaranteed loan balances amounted to B/.12,471,791 (2018: B/.6,985,816.

Deposits of related companies during the year amounted to B/. B/.55,164,108 (2018: B/.50,086,935, at interest rates between 0.05% and 9%, with multiple maturities until 2021.

Deposits from directors and key management personnel during the year amounted to B/.7,853,087 (2018: B/.3,145,431, at interest rates between 0.05% and 4% with multiple maturities until 2019.

As of June 30, 2019, the Bank recognized allowance for expected credit losses with respect to loans granted to related parties for B/.30,676

9. Cash and cash equivalents

	2019	2018
Cash	1,005,835	911,272
Demand deposits	133,406,882	100,465,891
Time deposits	34,998,908	42,555,286
Less: Allowance for expected credit losses	(31,370)	-
Total cash and cash equivalents	169,380,255	143,932,449
Less:		
Restricted demand and time deposits	31,974,806	37,287,635
Cash and cash equivalents for the purpose of the consolidated statement of cash flows	137,405,449	106,644,814

Restricted deposits amount to B/.1,253,000 (2018: B/.1,253,000) , of which B/.200,000 are held in Pershing LLC, required for the management of the investment portfolio, and B/.1,053,000 in Euroclear Bank, required for custody and settlement of stock transactions.

The subsidiary Grupo Prival Costa Rica, S.A., holds restricted deposits for B/.30,721,806 (2018: B/.36,034,635 corresponding to the legal reserve required by the local regulation thereof. These deposits are not considered in the liquidity reported to the Superintendency of Banks of Panama.

The average interest rate earned by time deposits is 1,032%, with several maturities until July 18, 2019 (2018: 0.417%, with several maturities until August 15, 2018).

10. Securities purchased under resale agreement

Prival Bank (Costa Rica), S.A., maintained securities in resale by B/.1,454,610 with maturity in July 2019 and a yield rate of 6.60%. These securities were guaranteed with Property Bonds of Costa Rica Government by B/.1,947,219.

11. Financial assets at fair value

	2019	2018
Financial asset at FVTPL	18,583,184	14,752,516
Financial asset at FVTOCI	122,728,669	87,056,902
	141,311,853	101,809,418

11.1 Financial assets at fair value through profit or loss:

	2019	2018
Securities traded in a market		
Governmental debt securities	57,736	9,327,601
Private debt securities	164	324,662
Mutual funds	-	1,100,254
	57,900	10,752,517
Unlisted securities		
Mutual funds	18,525,284	3,999,999
Total financial assets at FVTPL	18,583,184	14,752,516

The annual interest rates accruing financial assets at fair value are between 2.51% and 6.25% (2018: 1.86% and 8%) with various maturities until 2025 (2018: 2027).

11.2 Financial assets at fair value through other comprehensive income

	2019	2018
Securities traded in a market (at fair value)		
Governmental debt securities	24,822,494	28,456,516
Private debt securities	55,264,481	25,819,728
Mutual funds	4,845,645	1,856,090
Common shares	105,114	94,320
	85,037,734	56,226,654
Unlisted securities (at cost)		
Private debt securities	12,677	12,737
Common shares	24,942,192	18,905,396
Preferred shares	12,736,066	11,912,115
	37,690,935	30,830,248
Total financial assets at FVTOCI	122,728,669	87,056,902

The annual interest rates accrued at FVTOCI financial assets ranged between 1.94% and 10.03% (2018: between 2.50% and 9.995%).

The Bank recognized allowance for expected credit losses for B/.73,699 for financial assets at FVTOCI which is recognized in other comprehensive income.

12. Loans

Loans by type are broken down as follows:

	2019			2018		
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
Consumer:						
Personal	17,671,445	6,774,996	24,446,441	18,050,072	3,518,915	21,568,987
Automobile	340,862	537,518	878,380	438,239	827,802	1,266,041
Overdrafts	11,766,781	1,001,409	12,768,190	13,274,172	-	13,274,172
Mortgages	26,448,527	7,322,418	33,770,945	20,402,970	12,427,421	32,830,391
Credit cards	1,103,313	731,944	1,835,257	1,048,875	974,687	2,023,562
Corporate:						
Services	65,079,924	52,546,826	117,626,750	71,800,811	53,769,927	125,570,738
Construction	61,752,094	61,247,894	122,999,988	59,890,249	56,471,706	116,361,955
Mining	916,240	-	916,240	1,115,958	-	1,115,958
Financial leasing	731	-	731	1,669	-	1,669
Industrial	27,676,865	8,590,018	36,266,883	27,058,115	16,592,273	43,650,388
Agricultural	3,613,800	7,675,990	11,289,790	3,616,800	12,281,123	15,897,923
Commercial	75,742,821	50,930,057	126,672,878	84,134,854	58,192,440	142,327,294
Financial services	14,741,972	41,763,689	56,505,661	19,673,864	57,075,311	76,749,175
Others	22,013	-	22,013	22,662	-	22,662
	306,877,388	239,122,759	546,000,147	320,529,310	272,131,605	592,660,915
Less:						
Allowance for uncollectible loans	-	-	(4,043,342)	-	-	(2,245,057)
Discounted unearned interest and commissions	-	-	(1,128,874)	-	-	(1,348,364)
Total loans	-	-	540,827,931	-	-	589,067,494

The loan portfolio includes financial leases receivable whose maturity profiles are as follows:

	2019	**2018**
Minimum financial lease payments receivable:		
Less than 1 year	59,046	221,156
1 to 5 years	244,194	254,292
Balance at the end of the year	303,240	475,448

Interest rates of financial leases range between 6% and 7.25%.

13. Subsidiaries

The breakdown of the company's subsidiaries as at June 30th is as follows:

Name of the subsidiary	**Main activity**	**Place of incorporation and operations**	**2019**	**2018**
Prival Securities, Inc.	Brokerage firm	Panamá	100%	100%
Prival Leasing, S.A.	Financial leasing	Panamá	100%	100%
Prival Trust, S.A.	Trustee	Panamá	100%	100%
Grupo Prival (Costa Rica), S.A.	Banking	Costa Rica	100%	100%
Prival Private Equity Fund, S. A.	Mutual fund	Panamá	100%	100%
Prival Investment Management	Administrator	Islas Vírgenes	100%	-

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

14. Investments in other entities

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

Name	Activity	Country of incorporation	% of interest		2019	2018
			2019	2018		
Acerta Holdings, S. A. (i)	Insurance company	Panamá	42.82%	42.82%	7,590,339	6,700,207
Prival Bond Fund, S.A. (ii)	Mutual fund	Panamá	-	-	25,000	25,000
Prival Multi Strategy Income and Growth Fund, S.A. (ii)	Mutual fund	Panamá	-	-	25,000	25,000
Prival Mila Fund, S. A. (ii)	Mutual fund	Panamá	-	-	25,000	25,000
Prival Real Estate Fund (ii)	Mutual fund	Panamá	-	-	50,000	50,000
					7,715,339	6,825,207

(i) The investment in Acerta Holdings, S.A., is recorded using the equity method. In accordance with the shareholder agreement, the Bank owns 42.82% of the right to vote at the shareholders' meetings. Additionally, the Bank maintains preferred shares for B/.10,986,000 during the period ended June 30, 2019, classified as financial assets at FVTOCI. The Bank has no control as of June 30, 2019 over this Company in accordance with the consolidation policy described in note 3.2.1, given that it does not have rights that grant it the present capacity to direct the relevant activities, i.e., the activities that significantly affect the returns of the investee. Subsequent to June 30, 2019, the Bank perfected a transaction on increased participation in Acerta Holdings, S.A. (see note 40).

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

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

15. Property, furniture, equipment and improvements

Property, furniture, equipment and improvements are detailed as follows:

2019	Beginning balance	Additions	Decreases and reclassification	Ending balance
Cost				
Land	592,356	-	-	592,356
Building	1,841,396	21,352	-	1,862,748
Furniture and fixtures	1,046,074	39,427	-	1,085,501
Office equipment	33,246	4,783	-	38,029
Communication equipment	99,523	4,071	-	103,594
Vehicles	257,572	11,843	-	269,415
Leasehold improvements	3,443,314	84,862	-	3,528,176
Computer equipment	980,506	50,393	-	1,030,899
	8,293,987	216,731	-	8,510,718
Accumulated depreciation and amortization				
Building	131,912	42,242	-	174,154
Furniture and fixtures	509,201	135,785	-	644,986
Office equipment	16,996	5,193	-	22,189
Communication equipment	49,526	30,026	-	79,552
Vehicles	61,266	40,117	-	101,383
Leasehold improvements	1,518,053	529,226	-	2,047,279
Computer equipment	643,114	184,131	-	827,245
	2,930,068	966,720	-	3,896,788
Net value	5,363,919	(749,989)	-	4,613,930

2018	Beginning balance	Additions	Decreases and reclassification	Ending balance
Cost				
Land	592,356	-	-	592,356
Building	1,841,396	-	-	1,841,396
Furniture and fixtures	1,539,481	76,617	(570,024)	1,046,074
Office equipment	158,635	3,117	(128,506)	33,246
Communication equipment	160,299	37,725	(98,501)	99,523
Vehicles	381,906	75,731	(200,065)	257,572
Leasehold improvements	3,777,784	2,756	(337,226)	3,443,314
Computer equipment	1,171,797	141,274	(332,565)	980,506
	9,623,654	337,220	(1,666,887)	8,293,987
Accumulated depreciation and amortization				
Building	91,094	40,818	-	131,912
Furniture and fixtures	875,711	180,414	(546,924)	509,201
Office equipment	118,629	27,170	(128,803)	16,996
Communication equipment	108,481	39,546	(98,501)	49,526
Vehicles	76,324	41,493	(56,551)	61,266
Leasehold improvements	1,256,529	598,751	(337,227)	1,518,053
Computer equipment	773,805	196,846	(327,537)	643,114
	3,300,573	1,125,038	(1,495,543)	2,930,068
Net value	6,323,081	(787,818)	(171,344)	5,363,919

16. Intangible assets and goodwill

	2019	2018
Intangible assets	2,901,181	3,196,452
Goodwill	7,935,579	7,935,579
	10,836,760	11,132,031

16.1 Intangible assets

2019	Beginning balance	Additions	Decreases	Ending balance
Cost:				
Software and licenses	4,020,915	956,466	(161,259)	4,816,122
Deposits' portfolio	2,790,000	-	-	2,790,000
Total	6,810,915	956,466	(161,259)	7,606,122
Accumulated amortization:				
Software	3,025,463	904,478	-	3,929,941
Deposits' portfolio	589,000	186,000	-	775,000
	3,614,463	1,090,478	-	4,704,941
Net intangible assets	3,196,452			2,901,181

2018	Beginning balance	Additions	Decreases	Ending balance
Cost:				
Software and licenses	5,278,701	984,611	(2,242,397)	4,020,915
Deposits' portfolio	2,790,000	-	-	2,790,000
Total	8,068,701	984,611	(2,242,397)	6,810,915
Accumulated amortization:				
Software	3,728,493	1,388,331	(2,091,361)	3,025,463
Deposits' portfolio	403,000	186,000	-	589,000
	4,131,493	1,574,331	(2,091,361)	3,614,463
Net intangible assets	3,937,208			3,196,452

For the year ended June 30, 2019, the balance of additions for B/.956,466 (B/.984,611) corresponds to acquisitions and renewals of software and licenses.

16.2 Goodwill

The Bank's goodwill is as follows:

	2018	2017
Balance at the beginning of the year	7,935,579	7,935,579

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

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

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

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

To carry out the valuation of assets and businesses acquired, its expected net cash flows are projected for the assets or business in the corresponding cash-generating unit in 5-year periods. Likewise, its growth in perpetuity or a multiple of flows were defined at the end of the flow projection period to estimate the terminal cash flow. The growth rates for the assets was set at 10% for Prival Costa Rica and 5% for Prival Securities, while the growth rate in perpetuity is 3% in both models. To determine the growth rates of businesses, it used as a growth reference, the historical performance and metrics, its future forecasts, as well as the Bank's business plans.

To calculate the present value of future cash flows and determine the value of the assets or businesses that are being assessed, the performance of free cash flows was used as the discount rate, required by the shareholder, when the evaluated cash-generating unit is the Bank. The capital cost used is 15%.

17. Assets foreclosed for sale

As of June 30, the Bank maintains real estate classified as other assets held for sale in the amount of B/.9,911,580 (2018: B/.7,333,308).

These assets were the result executed loan guarantees and are recorded at fair value based on recent purchase offer and evaluation by an independent expert.

18. Other assets

	2019	2018
Accounts receivable	2,366,300	428,385
Other assets held for sale	1,854,452	892,810
Commissions receivable	1,826,838	4,314,677
Other assets	1,091,761	951,192
Guarantee deposits	996,949	789,453
Severance fund	636,259	546,373
Project in progress	406,454	9,344,127
Prepaid taxes	219,112	917,148
Prepaid insurance	1,066	31,131
	9,399,191	18,215,296

Commissions and accounts receivable correspond mainly to brokerage and structuring services.

19. Deposits from customers

	2019	2018
Time deposits	338,546,711	355,844,456
Savings deposits	179,645,938	180,794,795
Demand deposits	137,174,039	121,753,773
Total	655,366,688	658,393,024

20. Deposits from banks

	2018	2017
Deposits from banks:		
Time deposits	26,450,269	23,032,688

The average annual interest rate earned on deposits ranged between 0.50% and 9.08% (2018: 0.2% and 9%).

21. Securities sold under repurchase agreement

Prival Securities (Costa Rica) Puesto de Bolsa, SA, maintained obligations from securities sold under repurchase agreements that amounted to B/.544,589 (2018: B/.1,654,072), with maturity in July and August 2019 (2018: July 2018) and annual interest rate of 3.65% up to 7.65% (2018: 3.33% up to 7.04%). These securities are guaranteed with bonds of the Government of Costa Rica in colones and dollars for B/.816,743 (2018: B/.2,058,644).

Prival Bank, SA, held securities from obligations sold under repurchase agreements that amounted to B/.8,564,257 (2018: B/.6,758,560) with maturity on January 20, 2020 (2018: July 2019) and annual interest rate of 4,033 % (2018: between 3.9284% and 4.35954%).

22. Borrowings

Obligations with financial institutions

	2019	2018
i Obligations with international organizations for the financing of foreign trade, for working capital and housing, with multiple maturities until September 2021 and annual interest rates between 4.39% and 7.57% (2018: between 5.55% and 6.15%).	5,552,049	5,772,187
ii Obligations with governmental entities for short-term liquidity management and interest rates between 2.75% and 5.31% (2018: between 0.10% and 5.75%).	1,802,062	798,901
iii Obligations with international organizationd for long-term liquidity management, with renewable maturites and an interest rate of 5.00% and 5.06%.	5,759,644	5,756,842
iv Obligations with foreign banks for the funding of foreign trade operations, with renewable maturities and an interest rate of 4.68%.	2,535,425	2,502,173
(v) Obligations with foreign banks for use in working capital at medium term, with interest rates of 6.20%.	3,004,650	-
v Obligations with foreign banks for long-term liquidity management, with renewable maturities and an interest rate of 4%.	-	3,000,667
Obligations with foreign banks for working capital, with multiple maturities until September 2019 and an annual interest rate of 4% .	1,939,542	2,002,806
Obligations with foreign banks for financing of foreign trade operations, with multiple maturities until April 2019 and annual interest rates between 2.90% and 2.92%.	14,811,469	10,045,227
	35,404,841	29,878,803

i. Global line of credit for the financing of the Housing and Urban Improvement Program, as well as the Micro, Small and Medium Financing Program, for a total amount of B/.6,050,000 of which B/.5,552,049 was being used. The guarantee of this credit facility is constituted by the general responsibility of Prival Bank (Costa Rica), S.A. and a specific guarantee contract on portfolio generated with own resources, rated as A in accordance with the rating criteria established by the Bank, in a proportion of at least 1.2 in assets to 1.0 in liabilities. The global authorized line of credit is B/.6,050,000. For this facility as of June 30, portfolio promissory notes for a total of B/.7,427,690 have been assigned as collateral.

ii. As at June 30, 2019, there are obligations contracted through interbank market operations managed by the BCCR, for B/.1,802,062, with a rate of 2.75%. The guarantee of this credit facility is constituted by government debt securities.

iii. A Line of Credit in the amount of B/.6,000,000 is approved for the use of letters of credit, funding of foreign trade operations and working capital for the treasury. It is in use and has a balance of B/.5,759,644. The guarantee of this credit facility is fiduciary.

  a. Additionally, it maintains two standby letters of credit of B/.150,000 and B/.100,000 whose payer or beneficiary is VISA and MASTERCARD, respectively, as part of the guarantee they request to be able to make use of the services they offer; therefore, in case of breach of contract could be executed.

iv. A line of credit has been approved for an amount of B/.2,535,425 for working capital and letters of credit, which has been fully drawn. The guarantee is a joint bond of the parent company..

v. The Bank has approved a credit line for an amount of B/.3,004,650 for working capital. It is fully drawn and the facility's term is four years with biannual payments to capital and quarterly interest. The guarantee is fiduciary.

The Bank has not had defaults of principal, interest or other contractual clauses in relation to its financing received.

23. Bonds payable

As at June 30, the Bank holds bonds with Interclear, the Central Stock Exchange of Costa Rica, for an amount of B/.43,793,190 (2018: B/.40,026,563). The following is the balance of the bonds issued as at June 30:

Type	Interest rate	Maturity	2019	2018
Prival 02008	5.98%	2018	-	6,855,088
Prival 02010	5.98%	2018	-	6,978,763
Prival 02011	5.71%	2019	-	3,034,239
Prival 02012	5.60%	2019	-	4,759,960
Prival 01001	9.35%	2019	-	5,423,980
Prival 01002	10.05%	2019	2,624,887	2,686,754
Prival 02013	5.60%	2019	-	4,340,393
Prival 02014	5.98%	2019	1,934,940	1,934,940
Prival 02015	5.60%	2019	-	4,012,446
Prival 02016	5.98%	2020	4,011,292	-
Prival 02018	9.78%	2019	7,028,126	-
Prival 02019	5.98%	2020	2,171,813	-
Prival 02020	5.98%	2020	6,037,862	-
Prival 02021	6.30%	2020	6,032,572	-
Prival 02022	5.98%	2020	4,020,592	-
Prival 02023	5.71%	2020	1,505,707	-
Prival 02024	6.25%	2021	2,410,000	-
Prival 02025	5.43%	2020	6,015,399	-
			43,793,190	40,026,563

23.1 Amount

The issuance program of standardized bonds BANSOL 2016 corresponds to a multi-currency program to raise necessary funds for working capital and to support the Bank's business growth. The maximum amount to be placed on its series cannot exceed the consolidated amount of B/.35,000,000 of which B/.33,3952,497 has been issued and B/.4,559,827 has been used, distributed in the following series:

- PRIVAL series 02014 in dollars earns interest at an annual fixed interest rate equivalent to 5.98%, payable quarterly with maturity on October 2019.
- PRIVAL series 01002 in colones earns interest at an annual fixed interest rate equivalent to 10.05%, payable quarterly with maturity on September 2019.

The 2018 standardized bond issuance program corresponds to a multi-currency program to capture resources necessary for working capital and support for the growth of the Bank's businesses in which the maximum amount to be placed in its series may not exceed the amount of B/.50,000,000 of which B/.49,383,402 has been issued and B/.39,233,363 has been used, divided into the following series:

- PRIVAL series 02015 in dollars earns interest at an annual fixed interest rate equivalent to 5.60%, payable quarterly with maturity on June 2019.
- PRIVAL series 02016 in dollars earns interest at an annual fixed interest rate equivalent to 5.98%, payable quarterly with maturity on September 2020.
- PRIVAL series 02017 in dollars earns interest at an annual fixed interest rate equivalent to 5.98%, payable quarterly with maturity on October 2020.
- PRIVAL series 02018 in colones earns interest at an annual fixed interest rate equivalent to 9.78%, payable quarterly with maturity on November 2019.
- PRIVAL series 02019 in dollars earns interest at an annual fixed interest rate equivalent to 5.98%, payable quarterly with maturity on January 2020.
- PRIVAL series 02020 in dollars earns interest at an annual fixed interest rate equivalent to 5.98%, payable quarterly with maturity on May 2020.
- PRIVAL series 02021 in dollars earns interest at an annual fixed interest rate equivalent to 6.30%, payable quarterly with maturity on November 2020.
- PRIVAL series 02022 in dollars earns interest at an annual fixed interest rate equivalent to 5.98%, payable quarterly with maturity on June 2020.
- PRIVAL series 02023 in dollars earns interest at an annual fixed interest rate equivalent to 5.71%, payable quarterly with maturity on July 2020.
- PRIVAL series 02024 in dollars earns interest at an annual fixed interest rate equivalent to 6.25%, payable quarterly with maturity on June 2021.
- PRIVAL series 02025 in dollars earns interest at an annual fixed interest rate equivalent to 5.43%, payable quarterly with maturity on December 2020.

24. Notes payable

Prival Bank, S.A. was authorized, according to Resolution No.74-16 of February 15, 2016 by the Superintendency of the Securities Market of Panama, to offer by means of a public offering corporate notes for a total nominal value of B/.100,000,000 issued in a global, nominative and registered manner, without coupons. The notes will be issued in series, in denominations of B/.1,000 or their multiples, whose amounts, term and annual interest rates will be determined according to the needs of the Issuer and the market demand.

The Issuer will determine the amount of each series at the time of the sale offer of each Series. The Notes will accrue interest from its settlement date. The Issuer will also determine the maturity of the Series.

The Notes will be initially offered at par value, but can be subject to deductions or discounts, as well as premiums or surcharges as determined by the Issuer, in accordance with market conditions. Banco Prival, S. A.'s general credit will be their only backup.

The notes of Series A, B and C earned at an annual fixed interest rate of 4% payable quarterly on January 30, April 30, July 30 and October 30. These Series reached their maturity during the fiscal year.

The notes of Series D will earn an annual fixed interest rate of 4.25% payable quarterly on January 30, April 30, July 30 and October 30. In the event it is not a business day, payment will be made the following business day.

The notes of Series E will earn at an annual interest rate of 4.25% payable quarterly on January 30, April 30, July 30 and October 30. In the event it is not a business day, payment will be made the following business day.

The F Series notes accrue an interest at a 4.25% annual fixed rate payable quarterly on January 30, April 30, July 30 and October 30. In the event it is not a business day, payment will be made the following business day.

The notes of Series G will earn at an annual interest rate of 4.25% payable quarterly on January 30, April 30, July 30 and October 30. In the event it is not a business day, payment will be made the following business day.

As at June 30, 2019, notes payable are as follows:

Type	Interest rate	Maturity	2019	2018
A Series	4.00%	09-oct-18	-	5,016,787
B Series	4.00%	29-abr-19	-	4,026,222
E Series	4.00%	13-may-19	-	1,552,725
D Series	4.25%	04-oct-19	5,034,582	-
E Series	4.25%	10-feb-20	1,007,320	-
F Series	4.25%	23-abr-20	3,353,759	-
G Series	4.25%	07-may-20	1,648,481	-
			11,044,142	10,595,734

25. Reconciliation of liabilities derived from financing activities

The movement of liabilities is as follows for the purpose of reconciliation with the consolidated statement of cash flows , balances do not include interest payable:

2019	Balance at the beginning of the year	Proceeds from liabilities and placements	Payment of liabilities and redemption of placements	Balance at the end of the year
Borrowings	29,785,225	68,279,299	(62,811,388)	35,253,136
Bonds payable	39,659,652	39,023,776	(35,213,738)	43,469,690
Securities sold under repurchase agreements	8,321,750	21,226,402	(20,504,992)	9,043,160
Notes payable	10,527,000	10,966,000	(10,527,000)	10,966,000
Total	88,293,627	139,495,477	(129,057,118)	98,731,986

2018	Balance at the beginning of the year	Proceeds from liabilities and placements	Payment of liabilities and redemption of placements	Balance at the end of the year
Borrowings	4,782,019	43,812,386	(18,809,180)	29,785,225
Bonds payable	31,195,899	25,949,654	(17,485,901)	39,659,652
Securities sold under repurchase agreements	6,422,979	1,898,771	-	8,321,750
Notes payable	-	10,527,000	-	10,527,000
Total	42,400,897	82,187,811	(36,295,081)	88,293,627

26. Other liabilities

	2019	2018
Cashier's check and certificate	5,024,584	1,344,265
Labor reserves	3,363,323	3,173,052
Accounts payable	3,208,008	8,729,786
Taxes payable	831,002	774,464
Ingresos diferidos	325,472	263,247
Employer contributions payable	238,798	201,643
Other reserves	188,846	1,082,848
Insurance payable	79,301	2,515
Employee discounts	24,768	25,800
	13,284,102	15,597,620

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

27. Common shares

The Bank's capital of B/.25,000,000 is comprised of 25,000 common shares issued and outstanding without par value.

During the year no dividend payment was made.

Through meetings of the Board of Directors held during the fiscal period, it was approved to reduce the additional capital paid in the amount of B/.3,260,000.

28. Interest income

As at June 30, interest income is as follows:

	2019	2018
Investments	5,474,074	5,901,094
Loans	44,300,249	39,502,638
Deposits	751,733	318,778
Total	50,526,056	45,722,510

29. Revenue from brokerage and structuring services

Revenue from brokerage and structuring services for B/.14,590,199 (2018: B/.12,447,309) mainly relate to financial intermediation and investment structuring operations provided to its customers.

30. Interest expenses

	2019	2018
On customers' deposits	27,942,662	24,924,830
On liabilities and placements	1,608,896	1,414,189
Total	29,551,558	26,339,019

31. Net commission income

The breakdown of net commission income is as follows:

	2019	2018
Commission income from:		
Letters of credit and collection documents	-	1,016,062
Loans and credit cards	1,290,279	800,228
Bank services	656,612	557,507
Endorsements and guarantees	-	154,293
Other commissions	830,802	673,346
	2,777,693	3,201,436
Commission expenses for:		
Investments	2,593,810	1,705,270
Loans and credit cards	486,930	426,003
Bank services	152,417	99,754
Other commissions	139,403	228,021
	3,372,560	2,459,048
Net commission income	(594,867)	742,388

32. Personnel expenses

At June 30, personnel expenses are as follows:

	2019	2018
Salaries and other wages	10,991,520	12,128,473
Employee benefits	1,509,940	2,426,201
Others	1,206,910	661,692
Total	13,708,370	15,216,366

33. Other expenses

At June 30, other expenses are as follows:

	2019	**2018**
Leases	2,539,158	1,710,593
Professional fees	2,971,819	2,548,650
Taxes and licenses	1,168,887	1,280,551
Travel and accomodations	416,614	873,986
Utilities	185,430	339,525
Subscriptions	74,492	328,495
Bank fees	377,294	317,702
Marketing and public relations	333,505	319,461
Repairs and maintenance	290,514	316,700
Communications	279,426	273,124
Surveillance and security	136,987	150,255
Insurance	124,790	131,326
Donations and contributions	179,910	125,976
Others	1,513,535	584,696
Total	10,592,361	9,301,040

34. 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/.1,420,034,081 (2018: B/.855,584,460).

The following presents the managed portfolio by type of contract:

	2019	**2018**
Investment trusts	4,501,527	33,909,637
Guarantee trusts	1,415,532,554	821,674,823
Total	1,420,034,081	855,584,460

The amount of mortgage guarantees increased as the quick sale value of property appraisals was considered, with the exception of the issuers who report with the market value.

In addition, the Bank held a managed investment portfolio at the clients' risk amounting to B/.3,044,220,809 (2019: B/.2,575,798,656). Considering the nature of these services, Management believes there is no risk to the Bank.

35. Commitments and contingencies

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

	2019	2018
Endorsements and guarantees	7,224,125	11,471,047
Unused credit lines granted	11,084,275	6,911,819
Promissory notes	13,707,252	16,756,189
	32,015,652	35,139,055
Less: Provision for expected credit losses	(151,619)	-
	31,864,033	35,139,055

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

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

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

A summary of the off-balance sheet operations and commitments classified according to maturity dates is presented below:

2019	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Off-balance sheet operations				
Endorsements and guarantees	7,224,125	-	-	7,224,125
Promissory notes	13,707,252	-	-	13,707,252
Credit lines	6,081,438	5,002,837	-	11,084,275
Total	27,012,815	5,002,837	-	32,015,652

2018	**Less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Off-balance sheet operations				
Endorsements and guarantees	8,810,486	2,660,561	-	11,471,047
Promissory notes	16,689,583	66,606	-	16,756,189
Credit cards	4,555,470	2,356,349	-	6,911,819
Total	30,055,539	5,083,516	-	35,139,055

36. Operating lease arrangements

The Bank as lessee:

	2019	2018
Minimum lease payments under operating lease recognized in the consolidated statement of profit or loss	901,205	912,990

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

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

	2019	2018
Less than one year	960,793	164,000
Between one and five years	1,001,167	2,478,388
	1,961,960	2,642,388

During the year ended June 30, within the lease expense for B/.2,539,158 (2018: B/.1,710,593), property lease expenses were recorded for B/.901,205 (2018: B/.912,990).

37. 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 as follows:

	2019	2018
Current income tax	1,422,143	1,023,372
Deferred income tax from temporary differences	205,673	235,998
Total income tax	1,627,816	1,259,370

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

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

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

Costa Rica Republic fiscal legislation

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

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 as follows:

	2019	**2018**
Profit before income tax	9,727,323	8,629,904
Less: foreign, exempt and non-taxable income, net	(13,249,588)	(16,532,498)
Plus: non-deductible costs and expenses	10,939,595	14,699,050
Taxable base	7,417,330	6,796,456
Net taxable income	7,417,330	6,796,456
Current income tax	1,422,143	1,023,372

The effective average rate of the estimated income tax for the year ended June 30 is 15% (2018: 12%).

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. It 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.

38. Operation segment

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

39. Main applicable laws and regulations

39.1 Banking Law in the Republic of Panama

In the Republic of Panama, 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, regulates banks. 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.

39.2 Regulations of the Republic of Costa Rica

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

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

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

39.3 Law for financial leases

The Directorate of Financial Enterprises of the Ministry of Commerce and Industries regulates financial leasing operations in Panama and Industry according to the legislation established in Law No. 7 of July 10, 1990.

39.4 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.

39.5 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, modified by Law No.21 of May 10, 2017.

The General Superintendency of Financial Institutions, according to the Commercial Code of Costa Rica in Chapter XII, Articles 63 to 66, regulates trust operations of the subsidiary in Costa Rica.

39.6 Liquidity ratio

The percentage of liquidity ratio reported by the Bank to the regulator, under the parameters of Agreement 4-2008, was 52.49% (2018: 48.51%).

39.7 Capital adequacy

The Law requires the general license banks to maintain a paid-in capital stock or minimum assigned capital of ten million (B/.10,000,000) and capital funds for not less than 8% of their weighted assets, including off-balance sheet operations. The Bank has consolidated capital funds of approximately 13.45% (2018: 12.72) on its risk-weighted assets, based on the Agreement 1-2015 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 IFRS 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. Fully paid common shares represent paid-in capital in shares. Retained earnings are the earnings of the year and undistributed profits from previous years.

Agreement 1-2015, as amended by Agreement 13-2015 issued by the Superintendency of Banks sets forth the minimum required consolidated equity, the percentages required by type of capital that are effective as of January 1, 2016.

The capital ratios of the consolidated equity capital are as follows:

	2019	2018
Primary capital (Tier 1)		
Common shares	25,000,000	25,000,000
Excess paid-in capital	31,740,000	35,000,000
Retained earnings	30,908,845	26,526,480
Regulatory reserve - dynamic	9,944,392	9,664,977
Goodwill	(7,935,579)	(7,935,579)
Deferred tax asset	(14,941)	(330,542)
Interest in insurance entities	(12,148,953)	(11,261,235)
Intangible assets	(2,901,181)	(3,196,452)
Other items of comprehensive income	387,719	(328,185)
Total	74,980,302	73,139,464
Total regulatory capital	74,980,302	73,139,464
Risk-weighted assets	557,642,697	545,167,251
Capital ratios		
Minimum adequacy percentage	8%	8%
Total regulatory capital expressed as a percentage of risk-weighted assets	13.45%	12.72%
Total Tier 1 expressed as a percentage of risk-weighted assets	13.45%	12.72%

Capital ratios	Minimum required	2019	Minimum required	2018
Adequacy percentage - Total capital	8.00%	13.43%	8.00%	12.72%
Adequacy percentage - Primary capital	6.00%	11.65%	5.75%	11.04%
Adequacy percentage - Ordinary primary capital	4.50%	15.78%	4.25%	11.04%

The Superintendency of Securities Market of Panama and the Panama Stock Exchange requires Brokerage and Stock Exchange Firms to hold adequate capital funds. They must have a minimum solvency ratio of 8% and a liquidity ratio of at least 10%, according to the text approved in Agreement 4-2011, amended by Agreement 8-2013 of the Superintendency of Securities Exchange of Panama issued on September 18, 2013. As at June 30, the equity funds for Prival Securities were of B/.22,354,369 (2018: B/.19,875,315) and the solvency ratio was 2,153.74% (2018: 1587.02%). The liquidity ratio was 13,097.78% (2018: 5,362.15%).

The General Superintendency of Securities Market of Costa Rica requires that Stock Exchange Firms must have a necessary capital base to cover the risks incurred when carrying out its operations. It must have a maximum solvency ratio of 100%, according to the text approved in the Risk Management Regulations of the General Superintendency of Securities Market of Costa Rica (SUGEVAL), published in the Official Gazette Newspaper No.41 of February 27, 2009. As at June 30, the Equity Sufficiency of Prival Securities Costa Rica was of B/.50.61% (2018: B/.33.56%).

The General Superintendency of Securities Market of Costa Rica requires that Investment Fund Management companies must have a necessary capital base to cover the risks incurred when carrying out its operations. It must have a maximum solvency ratio of 100%, according to the text approved in the Risk Management Regulations of the General Superintendency of Securities Market of Costa Rica (SUGEVAL), published in the Official Gazette Newspaper No.41 of February 27, 2009. As at June 30, the Equity Sufficiency of Sociedad Administradora de Fondos de Inversión (SAFI) was of B/.51.99% (2018: B/.35.62%).

39.8 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.

39.9 Regulatory reserves

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

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

36.9.1 Loan and loan reserves

36.9.1.1 Specific reserves

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

Calculation basis

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

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

Accounting treatment

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

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

2019	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	429,376,664	39,678,693	333,485	534,582	2,377,510	472,300,934
Consumer loans	68,962,644	2,466,503	1,068,801	392,724	808,541	73,699,213
Total	498,339,308	42,145,196	1,402,286	927,306	3,186,051	546,000,147
Specific reserve	-	2,531,789	18,378	243,739	1,847,840	4,641,746

2018	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Corporate loans	505,519,715	12,924,211	181,645	606,264	2,465,927	521,697,762
Consumer loans	66,631,742	3,063,709	659,058	103,894	504,750	70,963,153
Total	572,151,457	15,987,920	840,703	710,158	2,970,677	592,660,915
Specific reserve	4,160	992,429	26,059	308,955	1,778,916	3,110,519

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:

	2019				2018			
	Current	Delinquent	Overdue	Total	Current	Delinquent	Overdue	Total
Corporate loans	469,809,229	522,852	1,968,853	472,300,934	516,733,294	1,892,507	3,071,961	521,697,762
Consumer loans	71,532,713	847,946	1,318,554	73,699,213	67,848,267	2,142,642	972,244	70,963,153
Total	541,341,942	1,370,798	3,287,407	546,000,147	584,581,561	4,035,149	4,044,205	592,660,915

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

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

b) More than 120 days for residential mortgage loans.

Total Bank loans that do not accrue interest amounts to B/.1,044,621 (2018: B/.1,053,633). Total unrecognized interest on income from loans is of B/.47,033 (2018: B/.10,517).

39.9.1.2 Dynamic reserves

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

The dynamic reserve is an equity item that is presented under the regulatory reserve item in the consolidated statement of changes in equity and takes the retained earnings as its own. The creditor balance of this dynamic reserve is part of the regulatory capital but does not replace or compensate the requirements at a minimum capital adequacy rate established by the Superintendency. The balance of the Bank's dynamic reserve as at June 30 is B/.9,868,927 (2018: B/.9,664,9777).

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

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

	2019	**2018**
Component 1		
Times Alpha coefficient (1.50%)	3,275,826	3,807,349
Component 2		
Quarterly variation times Beta coefficient (5.00%)	1,156	717,363
Component 3		
Positive quarterly variation for specific reserves	103,727	132,421
Total dynamic reserve by components	3,173,255	4,392,291
Total dynamic reserve corresponding to 2.00% of the risk-weighted assets within the normal risk category	5,564,259	5,360,309

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

	2019	**2018**
Component 1		
Times Alpha coefficient (1.50%)	2,202,960	2,463,656
Component 2		
Quarterly variation times Beta coefficient (5.00%)	37,263	904,701
Component 3		
Positive quarterly variation for specific reserves	(787,195)	(257,105)
Total dynamic reserve by components	3,027,418	3,625,462
Total dynamic reserve corresponding to 2.25% of the risk-weighted assets within the normal risk category	4,380,133	4,304,668
Total dynamic reserve	9,944,392	9,664,977

39.10 Provisions for country risk

These provisions are those generated on the measurement of country risk exposure related to all operations of placements, loans and reporting operations, investments in securities, derivative financial instruments, and irrevocable contingencies, provided they are not exempt from provision. These provisions for country risk are constituted on the balances exposed in these operations according to the category of risk classification of the country.

Calculation basis

General country risk assessments are carried out, as long as the amount of the individual exposures per country as a whole is equal to or greater than 30% of the total operations subject to country risk, or that any of these operations individually has a concentration in a country, equal to or greater than 5%. The result of these general assessments is used to assign the risk rating category of the country.

If the Bank did not carry out the country risk assessment considering the elements indicated in Agreement 7-2018, it assigns them to group 6 until such assessment is carried out and the country is assigned to the risk category that it determines based on that analysis.

The calculation of the provision is made on the basis of the balances exposed to country risk by the percentage of the country risk classification category, which is determined according to the methodology developed and established by the Bank.

The country's risk classification categories are associated with a sovereign risk rating issued by an international rating agency, according to Standard & Poor’s methodology or its equivalent, as shown below:

Classification category	International rating
Group 1, countries with low risk	should not be less than “AA-“
Group 2, countries with normal risk	should not be less than “BBB-“
Group 3, countries with moderate risk	should not be less than “BB-“
Group 4, countries with difficulties	should not be less than “B-“
Group 5, doubtful countries	should not be less than “C”
Group 6, countries with serious problems	“D”

The following will be considered exempt from provisions for country risk:

1. Foreign trade operations with a term of less than one year.
2. Investments in countries of groups 1 and 2, negotiated in markets with high liquidity and depth, which are valued at market price and whose valuation is carried out daily.
3. Transactions with derivatives that are carried out in centralized trading mechanisms that require the establishment of deposits or guarantee margins adjustable daily, located in the countries of groups 1 and 2.
4. Exposures with the multilateral development agencies listed in the Agreement of assets weighted by credit risk and counterparty risk

Accounting treatment

The provision for country risk that will be constituted will be the maximum between the one resulting from comparing the provision for country risk with respect to the provisions corresponding to the nature of the operation analyzed. The final provision constituted by country risk will be the one calculated after deducting the provisions constituted corresponding to the nature of the operation analyzed.

The table below summarizes the classification of operations exposed to country risk and the Bank's country risk provision:

2019	Group 1	Group 2	Group 3	Group 4	Group 5	Total
Loans	7,451,863	85,402	5,816,971	48,567,529	35,314	61,957,079
Irrevocable contingencies	173,744	455,395	780,999	6,844,398	101,686	8,356,222
Total	7,625,607	540,797	6,597,970	55,411,927	137,000	70,313,301
Reserve for country risk	-	408	504	10,396	7,122	18,430

39.11 Disposal of acquired real estate

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

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

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

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

As at June 30, 2019, Prival Bank, S.A. does not have real estate acquired as payment for uncollectible loans.

39.12 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:

2019	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Endorsements and guarantees	7.224.125	-	-	-	-	7.224.125
Unused credit lines granted	11.084.275	-	-	-	-	11.084.275
Promissory notes	13.707.252	-	-	-	-	13.707.252
Total	32.015.652	-	-	-	-	32.015.652
Required reserve based on the estimated net loss	-	-	-	-	-	-

2018	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Endorsements and guarantees	11.424.403	46.644	-	-	-	11.471.047
Unused credit lines granted	6.911.819	-	-	-	-	6.911.819
Promissory notes	16.756.189	-	-	-	-	16.756.189
Total	35.092.411	46.644	-	-	-	35.139.055
Required reserve based on the estimated net loss	-	1.866	-	-	-	1.866

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

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

40. Subsequent events

On September 9, 2019, the Bank increased its shareholding in Acerta Holdings, S.A. becoming a majority shareholder with 50.39% of the shares, so that it would be incorporated into the Bank as a subsidiary. This transaction has been approved by the Superintendence of Banks of Panama and the Superintendence of Insurance and Reinsurance of Panama. Given the early stage of the transaction, an estimate of the financial effect of this acquisition cannot be reasonably measured.

41. Approval of the consolidated financial statements

The consolidated financial statements of Prival Bank, S.A. and subsidiaries for the year ended June 30, 2019, were authorized by the General Management and approved by the Board of Directors for their issuance on September 27, 2019.

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

Annex I

Consolidating information on the statement of financial position
as at June 30, 2019
(In balboas)

	Total consolidated	Disposals Debit	Disposals Credit	Sub-total	Prival Bank, S.A.	Prival Securities, Inc.	Prival Leasing, Inc.	Prival Trust, S.A.	Prival Investment Management (BVI)	Prival Private Equity Fund, S. A.	Grupo Prival Costa Rica, S.A.
Assets											
Cash and cash equivalents	169,380,255	-	26,141,172	195,521,427	126,427,267	22,385,421	87,460	351,865	46,000	836	46,222,578
Securities purchased under resale agreements	1,454,610			1,454,610	-	-	-	-	-	-	1,454,610
Financial assets at fair value through profit or loss	18,583,184	-	-	18,583,184	57,900	-	-	-	-	-	18,525,284
Financial assets at fair value through other comprehensive income	122,728,669	-	9,218,302	131,946,971	99,943,642	105,114	-	255,968	-	8,188,908	23,453,339
Net loans	540,827,931	-	14,435,704	555,263,635	381,623,907	36,372	302,889	-	-	-	173,300,467
Investment in associates	7,715,339	-	53,717,614	61,432,953	61,257,953	175,000	-	-	-	-	-
Furniture, equipment and improvements	4,613,930	-	-	4,613,930	1,496,557	-	-	-	-	-	3,117,373
Intangible assets and goodwill	10,836,760	-	-	10,836,760	302,354	3,535,742	-	-	-	-	6,998,664
Deferred income tax	14,942	-	-	14,942	398,645	-	88	-	-	-	(383,791)
Assets foreclosed for sale	9,911,580	-	-	9,911,580							9,911,580
Other assets	9,399,191	53,612	84,220	9,429,799	5,093,917	1,120,564	1,149	172,303	-	-	3,041,866
Total assets	895,466,391	53,612	103,597,012	999,009,791	676,602,142	27,358,213	391,586	780,136	46,000	8,189,744	285,641,970
Liabilities and equity											
Liabilities											
Deposits from customers	655,366,688	29,543,439	-	684,910,127	529,294,152	-	-	-	-	-	155,615,975
Deposits from banks	26,450,269	-	-	26,450,269	26,450,269	-	-	-	-	-	-
Securities sold under repurchase agreements	9,108,846	-	-	9,108,846	8,564,257	-	-	-	-	-	544,589
Borrowings	35,404,841	14,435,704	-	49,840,545	16,751,011	-	274,271	-	-	-	32,815,263
Bonds payable	43,793,190	-	-	43,793,190	-	-	-	-	-	-	43,793,190
Notes payable	11,044,142	-	-	11,044,142	11,044,142	-	-	-	-	-	-
Provision for expected credit losses commitments and contingencies	151,619			151,619	90,258						61,361
Other liabilities	13,284,102	84,220	-	13,368,322	9,877,913	379,210	-	107,103	-	-	3,004,096
Total liabilities	794,603,697	44,063,363	-	838,667,060	602,072,002	379,210	274,271	107,103	-	-	235,834,474
Equity											
Common shares	25,000,000	59,108,969	-	84,108,969	25,000,000	5,300,000	100,000	150,000	100,000	5,866,035	47,592,934
Additional paid-in capital	31,740,000	100,000	-	31,840,000	31,740,000	-	-	-	-	-	100,000
Legal reserve	12,826,130	-	-	12,826,130	7,109,914	51,287	31,161	-	-	-	5,633,768
Change in other comprehensive income	387,719	70,466	-	458,185	677,682	60,490	-	4,324	-	-	(284,311)
Retained earnings	30,908,845	4,912,870	4,712,268	31,109,447	10,002,544	21,567,226	(13,846)	518,709	(54,000)	2,323,709	(3,234,895)
Total equity	100,862,694	64,192,305	4,712,268	160,342,731	74,530,140	26,979,003	117,315	673,033	46,000	8,189,744	49,807,496
Total liabilities and equity	895,466,391	108,309,280	108,309,280	999,009,791	676,602,142	27,358,213	391,586	780,136	46,000	8,189,744	285,641,970

See the accompanying Independent Auditors' Report.

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

Consolidating information on the statement of profit or loss and other comprehensive income
for the year ended June 30, 2019
(In balboas)

	Total consolidated	Disposals Debit	Disposals Credit	Sub-total	Prival Bank, S.A.	Prival Securities, Inc.	Prival Leasing, Inc.	Prival Trust, S.A.	Prival Investment Management (BVI)	Prival Private Equity Fund, S. A.	Grupo Prival Costa Rica, S.A.
Interest income	50,526,056	628,377	-	51,154,433	31,371,610	70,998	25,091	7,569	-	-	19,679,165
Interest expenses	(29,551,558)	-	628,377	(30,179,935)	(17,346,818)	(53,460)	(15,107)	-	-	-	(12,764,550)
Net financial income	20,974,498	628,377	628,377	20,974,498	14,024,792	17,538	9,984	7,569	-	-	6,914,615
Commission income	2,777,693	-	-	2,777,693	979,300	60,648	4,470	-	-	-	1,733,275
Brokerage and structuring services	14,590,199	287,746	-	14,877,945	3,146,695	7,730,802	-	340,158	-	-	3,660,290
Commission expenses	(3,372,560)	-	287,746	(3,660,306)	(659,862)	(1,241,869)	-	-	-	-	(1,758,575)
Net gain on commissions, brokerage and				-							
structuring services	13,995,332	287,746	287,746	13,995,332	3,466,133	6,549,581	4,470	340,158	-	-	3,634,990
Realized loss in financial assets at FVTPL, net	(45,484)	-	-	(45,484)	(45,484)	-	-	-	-	-	-
Unrealized gain in financial assets at FVTPL, net	70,286	-	-	70,286	70,286	-	-	-	-	-	-
Realized gain in financial assets at FVTOCI, net	345,654	-	-	345,654	346,111	-	-	-	-	-	(457)
Income from ordinary activities	35,340,286	916,123	916,123	35,340,286	17,861,838	6,567,119	14,454	347,727	-	-	10,549,148
Other income	685,494	2,640,000	-	3,325,494	2,783,928	3,178	-	13,000	-	-	525,388
Allowance for expected credit losses	59,472	-	-	59,472	(251,386)	-	110	-	-	-	310,748
Salaries and employee benefits	(13,708,370)	91,935	-	(13,616,435)	(8,768,320)	-	-	-	-	-	(4,848,115)
Depreciation and amortization	(2,057,198)	-	-	(2,057,198)	(966,870)	(181,806)	-	-	-	-	(908,522)
Others	(10,592,361)	-	2,731,935	(13,324,296)	(6,315,567)	(3,126,154)	(11,765)	(252,086)	(54,000)	(11,195)	(3,553,529)
Profit before income tax	9,727,323	3,648,058	3,648,058	9,727,323	4,343,623	3,262,337	2,799	108,641	(54,000)	(11,195)	2,075,118
Income tax expense	(1,627,816)	-	-	(1,627,816)	(651,452)	(607,910)	(1,312)	(28,080)	-	-	(339,062)
Share of net profit of associate	890,132	-	890,132	-	-		-	-	-	-	-
Profit for the year	8,989,639	3,648,058	4,538,190	8,099,507	3,692,171	2,654,427	1,487	80,561	(54,000)	(11,195)	1,736,056

See the accompanying Independent Auditors' Report.

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

Consolidating information on the statement of changes in equity
for the year ended June 30, 2019
(In balboas)

	Total consolidated	Disposals Debit	Disposals Credit	Sub-total	Prival Bank, S.A.	Prival Securities, Inc.	Prival Leasing, Inc.	Prival Trust, S.A.	Prival Investment Management (BVI)	Prival Private Equity Fund, S. A.	Grupo Prival Costa Rica, S.A.
Common shares											
Balance at the beginning of the year	25,000,000	62,738,966	-	87,738,966	25,000,000	5,300,000	100,000	150,000	-	9,596,032	47,592,934
Capital contribution	-	-	3,729,997	(3,729,997)	-	-	-	-	-	(3,729,997)	-
Balance of acquired subsidiary	-	100,000		100,000	-	-	-	-	100,000	-	-
Balance at the end of the year	25,000,000	62,838,966	3,729,997	84,108,969	25,000,000	5,300,000	100,000	150,000	100,000	5,866,035	47,592,934
Additional paid-in capital											
Balance at the beginning of the year	-	-	-	-	-	-	-	-	-	-	-
Excess paid-in capital and balance at the end of the year	35,000,000	100,000	-	35,100,000	35,000,000	-	-	-	-	-	100,000
Net changes in the year	(3,260,000)	-		(3,260,000)	(3,260,000)	-	-	-	-	-	-
Balance at the end of the year	31,740,000	100,000	-	31,840,000	31,740,000	-	-	-	-	-	100,000
Legal reserve											
Balance at the beginning of the year	11,058,791	-	-	11,058,791	6,501,469	26,918	54,743	-	-	-	4,475,661
Change for adoption of IFRS	(1,146,166)			(1,146,166)	(975,173)						(170,993)
Net changes for the year	2,913,505	-	-	2,913,505	1,583,618	24,369	(23,582)	-	-	-	1,329,100
Balance at the end of the year	12,826,130	-	-	12,826,130	7,109,914	51,287	31,161	-	-	-	5,633,768
Other accumulated comprehensive income											
Balance at the beginning of the year	(328,185)	78,690		(249,495)	60,554	70,315	-	(2,282)	-	-	(378,082)
Net change in securities	715,904		8,224	707,680	617,128	(9,825)	-	6,606	-	-	93,771
Balance at the end of the year	387,719	78,690	8,224	458,185	677,682	60,490	-	4,324	-	-	(284,311)
		70,466									
Retained earnings											
Balance at the beginning of the year	26,526,480	4,912,870	3,822,136	27,617,214	7,821,418	19,001,551	(38,277)	441,153	-	2,334,904	(1,943,535)
Profit for the year	8,989,639	-	890,132	8,099,507	3,692,171	2,654,427	1,487	80,561	(54,000)	(11,195)	1,736,056
Complementary tax	(112,692)	-	-	(112,692)	(45,012)	(64,383)	(292)	(3,005)	-	-	-
Change for adoption of IFRS	(3,453,648)	-	-	(3,453,648)	(1,141,902)	-	(461)	-	-	-	(2,311,285)
Deferred tax for IFRS adoption	726,405	-	-	726,405	284,314	-	115	-	-	-	441,976
Regulatory reserve	(1,767,339)	-	-	(1,767,339)	(608,445)	(24,369)	23,582	-	-	-	(1,158,107)
Balance at the end of the year	30,908,845	4,912,870	4,712,268	31,109,447	10,002,544	21,567,226	(13,846)	518,709	(54,000)	2,323,709	(3,234,895)
Total equity											
Balance at the beginning of the year	97,257,086	67,830,526	3,822,136	161,265,476	74,383,441	24,398,784	116,466	588,871	-	11,930,936	49,846,978
Balance of acquired subsidiary	-	100,000		100,000	-	-	-	-	100,000	-	-
Excess paid-in capital	(3,260,000)	-	3,729,997	(6,989,997)	(3,260,000)	-	-	-	-	(3,729,997)	-
Profit for the year	8,989,639	-	890,132	8,099,507	3,692,171	2,654,427	1,487	80,561	(54,000)	(11,195)	1,736,056
Complementary tax	(112,692)	-	-	(112,692)	(45,012)	(64,383)	(292)	(3,005)	-	-	-
Change for adoption of IFRS	(3,453,648)	-	-	(3,453,648)	(1,141,902)	-	(461)	-	-	-	(2,311,285)
Deferred tax for IFRS adoption	726,405	-	-	726,405	284,314	-	115	-	-	-	441,976
Other comprehensive income	715,904	-	8,224	707,680	617,128	(9,825)	-	6,606	-	-	93,771
Balance at the end of the year	100,862,694	67,930,526	8,450,489	160,342,731	74,530,140	26,979,003	117,315	673,033	46,000	8,189,744	49,807,496

See accompanying Independent Auditor's Report.