



**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, 2020 and Independent Auditors' Report dated  
October 17, 2020

"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 2020**

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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, 2020, 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, 2020, 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 (Critical accounting judgments and key sources of estimation uncertainty) and Note 11 (Loans) in the consolidated financial statements.

**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 statement, due to the judgment level applied by Management in measuring loan impairment provisions. As at June 30, 2020, the gross carrying value of the loan portfolio represents 52% 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.

This is a challenge from an audit perspective due to the complexity of estimating the components used to make these calculations and the application of Management's judgment.

**How our audit addressed the key audit matter**

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. 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.
- We involved specialists in the evaluation of Management's judgments on assumptions about current economic conditions and prospective analysis considerations that may change the level of ECLs based on our experience and knowledge of the industry.

**Other Matter**

The Bank evaluated subsequent events to June 30, 2020 to assess the need for recognition or disclosure in the consolidated financial statements. Based on this evaluation, it was determined to disclose as subsequent event the appearance of the COVID-19 disease, which was classified as a pandemic by the World Health Organization during the month of March 2020.

**Other information**

Management is responsible for the other information. The 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.

Together with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

After reading the Annual Update Report, if we conclude that there is a material error in the report, we are required to communicate the matter to those in charge of corporate governance and the Bank is required to address the error and prepare a modified Annual Update Report to be submitted to the Superintendency of the Securities Market.

**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 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 statements. 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.

**Deloitte.**

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.



October 17, 2020  
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, 2020

(In balboas)

	Notes	2020	2019
<b>Assets</b>			
Cash and cash equivalents	8	145,584,799	169,380,255
Securities purchased under resale agreement	9	-	1,454,610
Financial assets at fair value through profit or loss	7, 10	10,475,957	18,583,184
Financial assets at fair value through other comprehensive income	7, 10	138,615,846	122,728,669
Net loans	7, 11	432,612,115	540,827,931
Investments in other entities	13	125,000	7,715,339
Property, furniture, equipment and improvements	14	29,019,582	4,613,930
Intangible assets and goodwill	15	16,943,433	10,836,760
Right-of-use asset	38	2,454,680	-
Deferred income tax	39	1,237,933	14,942
Investment properties	16	4,995,276	-
Foreclosed assets for sale, net	17	8,945,654	9,911,580
Other assets	7, 18	53,714,181	9,399,191
<b>Total assets</b>		<b>844,724,456</b>	<b>895,466,391</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Customer deposits	7, 19	554,291,298	655,366,688
Interbank deposits	20	17,533,836	26,450,269
Securities sold under repurchase agreements	21, 25	12,507,021	9,108,846
Borrowings received	22, 25	34,986,996	35,404,841
Bonds payable	23, 25	51,770,232	43,793,190
Notes payable	24, 25	13,198,122	11,044,142
Lease liabilities	38	2,493,554	-
Allowance for expected credit losses, commitments and contingencies		155,665	151,619
Deferred income tax	39	213,938	-
Insurance operation reserve	26	25,865,695	-
Other liabilities	8, 27	23,147,509	13,284,102
<b>Total liabilities</b>		<b>736,163,866</b>	<b>794,603,697</b>
<b>Equity</b>			
Common shares	28	25,000,000	25,000,000
Preferred shares	29	1,764,000	-
Additional paid-in capital		30,940,000	31,740,000
Legal reserve		13,156,552	12,826,130
Change in other comprehensive income		(2,112,166)	387,719
Retained earnings		29,150,073	30,908,845
<b>Total controlling equity</b>		<b>97,898,459</b>	<b>100,862,694</b>
Non-controlling interest		10,662,131	-
<b>Total equity</b>		<b>108,560,590</b>	<b>100,862,694</b>
<b>Total liabilities and equity</b>		<b>844,724,456</b>	<b>895,466,391</b>

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, 2020**

(In balboas)

	Notes	2020	2019
Interest income	7, 30	43,460,021	50,526,056
Interest expenses	7, 32	(25,059,476)	(29,551,558)
Net financial income		<u>18,400,545</u>	<u>20,974,498</u>
Net commission income	7, 33	2,854,338	2,777,693
Income from brokerage and restructuring services	7, 31	16,366,314	14,590,199
Commission expenses	7, 33	(5,621,427)	(3,372,560)
Net gain from commissions, brokerage and restructuring services		<u>13,599,225</u>	<u>13,995,332</u>
Realized gain (loss) in financial assets at FVTPL, net		791,629	(45,484)
Unrealized (loss) gain in financial assets at FVTPL, net		(1,018,851)	70,286
Realized gain in financial assets at FVTOCI		<u>395,767</u>	<u>345,654</u>
Income from ordinary activities		32,168,315	35,340,286
Insurance income		5,878,257	-
Other income	7	4,735,229	685,494
Allowance for expected credit losses		(4,309,258)	59,472
Provision for losses on assets available for sale		(175,683)	-
Personnel expenses	7, 34	(14,960,392)	(13,708,370)
Depreciation and amortization	14, 15, 38	(3,213,953)	(2,057,198)
Other expenses	35	<u>(12,090,434)</u>	<u>(10,592,361)</u>
Profit before income tax		8,032,081	9,727,323
Income tax expense	39	(1,386,514)	(1,627,816)
Interest on net gain (loss) of associate		<u>-</u>	<u>890,132</u>
<b>Profit for the year</b>		<u>6,645,567</u>	<u>8,989,639</u>
<b>Profit for the year attributable to:</b>			
Controlling owners		5,894,718	-
Non-controlling interest		<u>750,849</u>	<u>-</u>
<b>Profit for the year</b>		<u>6,645,567</u>	<u>8,989,639</u>
<b>Other comprehensive income:</b>			
<b>Items that can later be reclassified to profit or loss:</b>			
Net realized gain in financial assets at FVTOCI transferred to profit or loss		(395,767)	(320,852)
Credit risk valuation		117,842	73,699
Net unrealized gain		<u>(2,237,169)</u>	<u>963,057</u>
Net changes in financial assets at FVTOCI		<u>(2,515,094)</u>	<u>715,904</u>
<b>Total comprehensive income</b>		<u>4,130,473</u>	<u>9,705,543</u>
<b>Comprehensive income attributable to:</b>			
Controlling owners		3,394,833	9,705,543
Non-controlling interest		<u>735,640</u>	<u>-</u>
<b>Total comprehensive interest</b>		<u>4,130,473</u>	<u>9,705,543</u>

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, 2020**  
(In balboas)

	Common shares	Preferred shares	Additional paid-in capital	Legal reserve	Net changes in other comprehensive income	Retained earnings	Total equity attributable to the owners	Non-controlling interest	Total equity
<b>Balance as at June 30, 2018</b>	25,000,000	-	35,000,000	9,912,625	(328,185)	24,945,403	94,529,843	-	94,529,843
Profit for the year	-	-	-	-	-	8,989,639	8,989,639	-	8,989,639
Other comprehensive income	-	-	-	-	-	-	-	-	-
Credit risk valuation	-	-	-	-	73,699	-	73,699	-	73,699
Net changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	642,205	-	642,205	-	642,205
<b>Total comprehensive income for the year</b>	-	-	-	-	715,904	8,989,639	9,705,543	-	9,705,543
<b>Transactions attributable to the shareholder directly recorded in equity:</b>									
Complementary tax	-	-	-	-	-	(112,692)	(112,692)	-	(112,692)
Decrease in additional paid capital	-	-	(3,260,000)	-	-	-	(3,260,000)	-	(3,260,000)
Total transactions attributable to the shareholder directly recorded in equity	-	-	(3,260,000)	-	-	(112,692)	(3,372,692)	-	(3,372,692)
<b>Other equity transactions:</b>									
Legal reserve	-	-	-	2,913,505	-	(2,913,505)	-	-	-
<b>Balance as at June 30, 2019</b>	25,000,000	-	31,740,000	12,826,130	387,719	30,908,845	100,862,694	-	100,862,694
<b>Balance as at July 1, 2019</b>	25,000,000	-	31,740,000	12,826,130	387,719	30,908,845	100,862,694	-	100,862,694
Profit for the year	-	-	-	-	-	5,894,718	5,894,718	750,849	6,645,567
Other comprehensive income	-	-	-	-	-	-	-	-	-
Credit risk valuation	-	-	-	-	111,892	-	111,892	5,950	117,842
Net changes in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(2,611,777)	-	(2,611,777)	(21,159)	(2,632,936)
<b>Total comprehensive income of the year</b>	-	-	-	-	(2,499,885)	5,894,718	3,394,833	735,640	4,130,473
<b>Transactions attributable to the shareholder directly recorded in equity:</b>									-
Complementary tax	-	-	-	-	-	33,414	33,414	-	33,414
Income tax	-	-	-	-	-	(18,750)	(18,750)	-	(18,750)
Balance of acquired subsidiary	-	1,764,000	-	-	-	105,301	1,869,301	188,465	2,057,766
Non-controlling interest	-	-	-	-	-	-	-	9,521,101	9,521,101
Dividends paid	-	-	-	-	-	(6,490,000)	(6,490,000)	-	(6,490,000)
Decrease in additional paid-in capital	-	-	(800,000)	-	-	-	(800,000)	-	(800,000)
Equity adjustments	-	-	-	-	-	(2,219,663)	(2,219,663)	-	(2,219,663)
Total transactions attributable to the shareholder directly recorded in equity	-	1,764,000	(800,000)	-	-	(8,589,698)	(7,625,698)	9,709,566	2,083,868
<b>Other equity transactions</b>									
Legal reserve	-	-	-	(1,327,820)	-	2,594,450	1,266,630	216,925	1,483,555
Reserve 9-2020	-	-	-	1,658,242	-	(1,658,242)	-	-	-
<b>Balance as at June 30, 2020</b>	25,000,000	1,764,000	30,940,000	13,156,552	(2,112,166)	29,150,073	97,898,459	10,662,131	108,560,590

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, 2020**

(In balboas)

	Notes	2020	2019
<b>Cash flows from operating activities:</b>			
Profit for the year		6,645,567	8,989,639
Allowance for expected credit losses		4,309,258	(59,472)
Depreciation and amortization	14, 15, 38	3,213,953	2,057,198
Income tax expense	39	1,386,514	1,627,816
Realized gain in financial assets at FVTOCI		(395,767)	(345,654)
Realized gain (loss) in financial assets at FVTPL		(791,629)	45,484
Unrealized loss (gain) in financial assets at FVTPL		1,018,851	(70,286)
Share of net (profit) loss of associate		-	(890,132)
Interest income		(43,460,021)	(50,526,056)
Interest expenses		25,059,476	29,551,558
<b>Net changes in operating assets and liabilities:</b>			
Decrease (increase) in financial instruments at FVTPL		7,887,182	(3,971,940)
Decrease in loans receivable		106,132,433	46,051,838
(Increase) decrease in other assets		(14,900,829)	7,327,398
(Decrease) increase in deposits from customers		(109,805,242)	1,091,424
Decrease in other liabilities		(6,240,505)	(4,507,436)
Income tax paid		(1,627,816)	(1,023,372)
Interest received		42,345,078	49,364,980
Interest paid		(25,335,014)	(30,252,813)
Net cash (used in) provided by operating activities		(4,558,511)	54,460,174
<b>Cash flows from investment activities:</b>			
Time deposits in banks with maturities over three months		(2,899,288)	-
Decrease in demand and restricted time deposits		5,694,866	5,312,829
Purchase of financial assets at FVTOCI		(93,069,567)	(56,806,449)
Proceeds from the sale of financial assets at FVTOCI		73,962,805	23,192,033
Securities purchased under resale agreements		1,451,681	(1,451,681)
Net cash outflow in acquisition of subsidiaries		3,328,510	-
Acquisition of property, furniture, equipment and improvements		(6,895,667)	(795,207)
Acquisition of intangibles and goodwill	15	(944,736)	(216,731)
Net cash used in investment activities		(19,371,396)	(30,765,206)
<b>Cash flows from financing activities:</b>			
Securities sold under repurchase agreements	25	17,016,092	21,226,402
Cancellations of securities sold under repurchase agreement	25	(13,644,683)	(20,504,992)
Proceeds from borrowings	25	51,685,104	68,279,299
Payment of borrowings	25	(52,064,767)	(62,811,388)
Bonds payable	25	31,874,521	39,023,776
Redemption of placements/positions	25	(23,805,956)	(35,213,738)
Notes payable	25	13,106,000	10,966,000
Payment of notes payable	25	(10,966,000)	(10,527,000)
Additional paid-in capital		(800,000)	(3,260,000)
Reversals against previous years profit		(2,219,663)	-
Payment of lease liabilities		(794,034)	-
Dividends paid		(6,490,000)	-
Complementary tax		33,415	(112,692)
Net cash provided by financing activities		2,930,029	7,065,667
Net (decrease) increase in cash and cash equivalents		(20,999,878)	30,760,635
Cash and cash equivalents at the beginning of the year		137,405,449	106,644,814
Cash and cash equivalents at the end of the year	8	116,405,571	137,405,449
<b>Non-monetary transactions in investment and financing activities:</b>			
Other assets held for sale		-	2,578,272

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.)

### **Notes to the consolidated financial statements for the year ended June 30, 2020**

(In balboas)

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#### **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 12.

The Bank's main offices are located at 50<sup>th</sup> Street and 71<sup>st</sup> 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, 2019, had a significant effect on the consolidated financial statements.

##### IFRS 16 – Leases

The Bank implemented IFRS 16 (issued by the IASB in January 2016), which establishes new or modified requirements for lease accounting. It makes significant changes to the lessee's accounting, removing the distinction between an operating lease and a finance lease and requiring recognition of a right-to-use asset and a lease liability at the inception date of all leases, except those considered to be short-term or low value assets. In contrast to the lessee's accounting, the requirements for the lessor remain significantly unchanged. Details for the new requirements are described in Note 3.17. The initial impact of the adoption of IFRS 16 on the Bank's consolidated financial statements is described below.

The initial application date of IFRS 16 for the Bank was July 1, 2019.

##### *(a) Impact of the new definition of a lease*

The Bank has determined to apply the practical resource available in the transition to IFRS 16 so as not to reassess whether the contract is or has a lease. Therefore, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered into or modified before July 1, 2019.

The change in the definition of a lease relates primarily to the control concept. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset during a period of time in exchange a consideration. This contrasts with the "risk and reward" approach of IAS 17 and IFRIC 4.

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

**Notes to the consolidated financial statements  
for the year ended June 30, 2020**  
(In balboas)

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

*(b) Impact on lessee's accounting*

*(i) Prior operating leases*

IFRS 16 changes the way that the Bank accounts for leases previously classified as operating leases under IAS 17, which were held outside the consolidated statement of financial position.

By applying IFRS 16 to all leases, (except those mentioned after), the Bank:

- a) Recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments.
- b) Recognizes depreciation of leased assets by right of use and interest on leased liabilities in the statement of profit or loss and other comprehensive income.
- c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement profit or loss.

Lease incentives (e.g. grace periods) are recognized as part of the initial measurement of the right-to-use assets and lease liabilities, whereas under IAS 17, they resulted as a liability amortized as a reduction of lease expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment according to IAS 36.

For short-term leases (12 months or less) and leases of low value assets (establishing low value policies), the Bank has elected to recognize a straight-line lease expense as permitted by IFRS 16. This expense is presented within other expenses in the statement of profits or losses.

*(ii) Prior financial leases*

The main differences between IFRS 16 and IAS 17 with respect to contracts classified as financial leases is the measurement of the residual value of the guarantees provided by the lessor to the lessee. IFRS 16 requires the Bank to recognize as part of the lease liabilities only the expected amount to be paid under a residual value guarantee, as opposed to the maximum amount of the guarantee required by IAS 17. This change did not generate any material impact on the Bank's consolidated financial statements.

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*(c) Impact on lessor's accounting*

IFRS 16 does not materially change how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either financial or operating leases and accounts for the two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, particularly with respect to how a lessor manages risks arising from its residual interest in leased assets.

*(d) Initial financial impact of the adoption of IFRS 16*

The tables below show the adjustment amounts for each item in the consolidated financial statements affected by the application of IFRS 16 for the current period.

The Bank as lessee:

- (1) The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets for B/. 3,301,588 and lease liabilities for B/.3,287,588. It also resulted in an increase in depreciation for B/.846,908 and an increase in interest expense for B/.148,567.

The application of IFRS 16 has an impact on the Bank's consolidated statement of cash flows. Under IFRS 16, lessees are required to file:

- Short-term lease payments, low value asset lease payments, and variable income lease payments that are not included in the measurement of the lease liability, as part of operating activities;
- Cash paid for interest on the lease liability as either operating or financing activities as permitted by IAS 7 (the Bank has elected to include interest paid as part of financing activities); and
- Cash payments for the equity portion of the lease liability, as part of financing activities.

Under IAS 17, all rental payments under operating leases were presented as part of cash flows from operating activities. Consequently, net cash generated from operating activities has increased by B/.995,476 in 2020, where lease payments and net cash used in financing activities have increased.

The adoption of IFRS 16 did not generate impacts on net cash flows.

The impact from the adoption of IFRS 16 in profit per basic and diluted earnings per shares is disclosed in Note 38.

**2.2 New and implemented standards and interpretations without significant impact on the consolidated financial statements**

In the current year, the Bank has adopted a number of amendments to IFRS Standards and Interpretations issued by the IASB. Their adoption has not had any material impact on the disclosures or amounts reported in these consolidated financial statements.

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Amendments to IFRIC 23 – Uncertainty over income tax treatments

The interpretation is to be applied to the determination of the tax accounting position when there is uncertainty over the income tax treatments.

The interpretation requires that the Bank:

- a) Determine if the uncertain tax positions are valued separately or as a group; and
- b) Assess whether the tax authority is likely to accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax returns:
  - If so, the entity must determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax returns.
  - If not, the entity must reflect the effect of the uncertainty in the determination of its accounting tax position.

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

Amendments to IFRS 9 - Prepayment features with negative compensation

The Bank adopted the Amendments to IFRS 9 for the first time in the previous period. The Amendments to IFRS 9 clarify that, for purposes of assessing whether a prepayment meets the 'principal and interest payments only' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment regardless of the reason for the prepayment. In other words, financial assets with prepayment features that are negatively compensated do not necessarily fail the SPPI test.

Amendments to IAS 28 - Long-term interests in associates and joint ventures

The Bank adopted the amendments to IAS 28 for the first time in the current period. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applicable.

This includes long-term investments that, in substance, are part of net investments in an associate or joint venture. The Bank applies IFRS 9 to such long-term interests to which IAS 28 previously applied. In applying IFRS 9, the Bank does not take into account any of the adjustments to the carrying amount of long-term interests required by IAS 28 (e.g., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or the assessment of impairment under IAS 28).

**Annual improvements to 2015-2017 IFRSs Cycle**

Amendments to IAS 12 – Income taxes, IAS 23 – Borrowing costs, IFRS 3 – Business combinations

The Bank has adopted the amendments included in the *Annual Improvements to IFRS Standards for the 2015-2017 cycle* for the first time in the current period. The Annual Improvements include amendments to four standards.

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IAS 12 – Income taxes

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 – Borrowing costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

IFRS 3 – Business combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

**2.3 New and revised International Financial Reporting Standards issued, but not yet effective**

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

IFRS 17	<i>Insurance contracts</i>
IFRS 10 IAS 28 (amendments)	<i>Sales or contributions of assets between an investor and its associat or joint venture</i>
Amendments to IFRS 3	<i>Definition of a business</i>
Amendments to IAS 1 and IAS 8	<i>Definition of materiality</i>
Conceptual framework	<i>Conceptual framework of IFRS Standards</i>

Management does not anticipate that the application of the amendments in the future will have an impact on the Bank's consolidated financial statements, except as noted below:

**IFRS 17 – Insurance contracts**

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance contracts*.

The Standard outlines a General Model, which is modified for insurance contracts with direct participation features, described as the Variable Fee Approach. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.



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The General Model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. A draft of the changes to IFRS 17 addresses the implementation concerns and difficulties that were identified after the publication of IFRS 17. One of the major changes proposed is to defer the initial application date of IFRS 17 by one year to reporting periods beginning on or after January 1, 2023.

In accordance with the transition requirements, the initial application date is the start of the annual reporting period in which the Bank first applies the Standard and, the transition date is the beginning of the period immediately preceding the date of initial application.

**Amendments to IFRS 10 and IAS 28 - Sales or contributions of assets between an investor and its associate or joint venture**

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Bank's consolidated financial statements in future periods should such transactions arise.

**Amendments to IFRS 3 - Definition of a business**

The amendments clarify that, while businesses usually have outputs, these are not required for a number of integrated activities and assets to qualify as a business. To qualify as a business, a series of acquired activities and assets must include, at a minimum, an input and a substantial process that together contribute significantly to the ability to generate outputs.

Additional guidance is provided to help determine whether a substantial process has been acquired.

The amendments introduce an optional test to identify fair value concentration, which allows a simplified assessment of whether a series of acquired activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar assets.

The amendments apply prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first reporting period beginning on or after January 1, 2020, with early adoption permitted.

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**Amendments to IAS 1 and IAS 8 - Definition of materiality**

The amendments are intended to simplify the definition of materiality contained in IAS 1, making it easier to understand, and are not intended to alter the underlying concept of materiality in IFRS standards. The concept of obscuring material information with immaterial information has been included in the new definition.

The limit for influencing materiality for users has been changed from "could influence" to "could reasonably be expected to influence".

The definition of materiality in IAS 8 has been replaced by a reference to the definition of materiality in IAS 1. In addition, the IASB amended other standards and the Conceptual Framework that contained a definition of materiality or reference to the term materiality to ensure consistency.

The amendment will be applied prospectively for reporting periods beginning on or after January 1, 2020, with early application permitted.

**Conceptual Framework of IFRS Standards**

Together with the revised Conceptual Framework, which became effective upon publication on March 29, 2018, the IASB also issued the Amendments to the References to the IFRS Standards Conceptual Framework. The document contains amendments to IFRS 2, 3, 6, 14, IAS 1, 8, 34, 37, 38, IFRIC 12, 19, 20, 22, and SIC 32.

However, not all amendments update the pronouncements regarding references to the conceptual framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version they refer to (the IASC Framework adopted by the IASB in 2001, the IASB Framework in 2010 or the revised Framework in 2018) or to indicate that the definitions in the Standard have not been updated with new definitions developed in the revised Conceptual Framework.

Amendments, which are in effect updates, are effective for annual periods beginning on or after January 1, 2020, with early adoption permitted.

**3. Most significant accounting policies**

**3.1 Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis except for investments at FVTOCI and FVTPL, 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.

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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 IFRS 16 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 consolidated 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.

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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 IFRS 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.

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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 IFRS 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).

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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**

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).

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.

#### **3.4.1 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.

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#### 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 Bank intends to sell immediately or in the short term, which are classified as negotiable, and those that the Bank in its initial recognition designates as fair value through profit and loss; (b) those that the Bank in its initial recognition designates as available for sale; or (c) those for which the holder does not recover substantially all of its initial investment, unless due to credit impairment.

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

#### **3.4.2 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
- 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.

#### **3.4.3 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.

#### **3.4.4 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.

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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**

**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 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.

**3.5.3 Derecognition of financial liabilities**

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

**3.5.4 Dividends**

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



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**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 and other comprehensive income 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 medium and long term transactions 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.

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#### **3.9      *Impairment identification and measurement***

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 consolidated 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.

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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 unlikelihood 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.

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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.

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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 consolidated 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;

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- 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;

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.

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**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, 2020, Management has not identified any impairment of non-financial assets.

**3.13 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.

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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 IFRS 9, 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.



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**3.14 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.

**3.15 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).

**3.16 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 consolidated 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.

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**3.17 Leases**

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

**The Bank as lessor**

The Entity enters into leasing contracts as lessor with respect to some of the investment properties.

When the terms of the contract substantially transfer all risks and rewards of ownership to the lessee, the contract is classified as a financial lease. All other contracts are classified as operating contracts.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging the operating lease are added to the carrying value of the leased asset and are recognized on a straight-line basis over the term of the lease.

Outstanding amounts of finance leases are recognized as lease receivables in the amount of the net investment in the leases. Finance lease income is allocated to the accounting periods to reflect a constant periodic rate of return on the net investment in the lease.

**The Bank as lessee**

The Bank assesses whether a contract is or contains a lease, at the beginning of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability in relation to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a term of 12 months or less) and low-value asset leases. For these leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which the economic benefits of the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments not paid at the inception date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rates.

Lease payments included in the measurement of lease liabilities consist of:

- Fixed payments (including fixed payments in substance), less any lease incentive received;
- Variable payments that are based on an index or rate, initially measured using the index or rate on the start date;
- Amounts expected to be paid by the lessee as residual value guarantee;
- Price of a purchase option if the lessee is reasonably certain to exercise it; and
- Penalties for termination of the lease, whether the lease period reflects the exercise of a lease termination option.

The lease liability is presented as a separate line item in the consolidated statement of financial position.

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The lease liability is measured at amortized cost using the effective rate method. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

The Bank re-measures the lease liability (and makes appropriate adjustments related to the right-of-use asset) provided that:

- The lease term has changed or there is a change in the assessment of the exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in an expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease is changed and the change in lease is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate, updated at the effective date of the amendment.

The Bank has not made these adjustments during the period presented.

Right-of-use assets comprise the initial measurement of the related lease liability, lease payments made on or before the start date, and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the life of the underlying asset. Depreciation begins on the start date of the lease.

The right-to-use asset is presented as a separate line item in the consolidated statement of financial position.

The Bank applies IAS 36 to determine whether a right-to-use asset is impaired and accounts for any identified impairment loss as described in the policy "Property , furniture, equipment and improvements".

Variable rentals that are not dependent on an index or rate are not included in the measurement of the lease liability and right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the item line "other expenses - rent" in the consolidated statement of profit or loss and other comprehensive income.

As a practical expedient, IFRS 16 allows not to separate the non-lease components and instead to account for any lease and its associated non-lease components as a single agreement. The Bank has not used this practical expedient. For contracts that contain both lease components and one or more additional lease or non-lease components, the Bank assigns the contract consideration to each lease component under the method of the relative sale price separate from the lease component and relative sale price added for all non-lease components.

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**3.18      *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.

**3.19      *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.

**3.20      *Policies applicable to insurance***

**3.20.1      Recognition and measurement of insurance contracts**

**3.20.1.1      General insurance business**

The general insurance business includes the following branches: fire, multi-risk, transportation, automobile, hull, civil liability, theft, miscellaneous and technical insurance. General insurance contracts protect clients against risks caused by an uncertain event on third parties or on the insured itself.

The premiums issued from the general insurance business are composed of the contracts' premiums that have been agreed upon during the year, regardless of whether they relate totally or partially to a subsequent accounting period. The accrued portion of premiums subscribed is recognized as income in the statement of profit or loss and other comprehensive income.

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Premiums are accrued from the date the risk is fixed for the coverage period. Premiums ceded in reinsurance are recognized in the statement of income and other comprehensive income as expenses in accordance with the pattern of reinsurance service received.

Premiums corresponding to personal insurance policies are handled in accordance with the basis of the general insurance business, except for individual life, whose income is recognized on the basis of cash received.

**3.20.1.2 Personal insurance business**

Personal insurance business includes: individual term life, collective life and personal accident. Personal insurance contracts protect clients from the consequences of events such as accidents, temporary or permanent disability and even death.

**3.20.1.3 Financial guarantee or bond contracts**

The Bank has previously and explicitly stated that it considers such contracts as insurance contracts and that it has used the accounting applicable to insurance contracts, and therefore, they are not subject to the application of IAS 32, IFRS 9 and IFRS 7.

Financial guarantees are those contracts by which the Bank undertakes to pay specific amounts on behalf of a third party in case the latter does not do so, regardless of the form in which the bond obligation is established: guarantee, financial or technical endorsement, irrevocably documented credit issued or confirmed by the Bank, insurance and credit derivative.

**3.20.1.4 Written premiums**

Written premiums comprise premiums for contracts that have been agreed during the year, regardless of whether they relate in whole or in part to a subsequent accounting period. The accrued portion of written premiums is recognized as income. Written premiums are accrued as of the risk assessment date, over the term of the contract.

Unearned premiums are the proportions of written premiums issued in a year that refer to periods of risk after the closing date of the consolidated financial statements. Unearned premiums are deferred over the life of the policies using the daily pro-rata method.

**3.20.1.5 Reinsurance premiums**

Reinsurance premiums comprise premiums assigned to reinsurers for the coverage provided in the contracts held in the period and are recorded on the date the policy is issued. The accrued portion of reinsurance premiums is recognized as costs. Reinsurance premiums are accrued as of the date the risk is fixed, over the term of the contract.

Unearned reinsurance premiums are the proportions of reinsurance premiums issued in a year that refer to the risk periods subsequent to the closing date of the consolidated financial statements. Unearned reinsurance premiums are deferred over the life of the policies using the daily pro-rata model.

**3.20.1.6 Commissions**

Income from reinsurance commissions is recognized according to the term of the policy, under the pro-rata temporis method.

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In the normal course of business, the Insurer enters into automatic non-proportional (excess of loss) and facultative proportional contracts for assigned premiums, in order to limit its risk exposure to each of the insured and to recover a portion of the benefits paid.

Automatic non-proportional (excess of loss) contracts for fire, general and other classes of insurance are recognized in the results of the period as they accrue. The characteristics of these contracts are that they establish a maximum coverage capacity in favor of the insured and a fixed withholding amount for the Insurer, they have annual coverage and are renewed mostly every year.

The Insurer recognizes one hundred percent (100%) of the reserve for incurred claims, net of the reinsurer's share pending settlement or payment at the end of the fiscal year. Claims are reported to the reinsurer and credited to the statements when they are paid, except for those that exceed the minimum claim notice amount included in the reinsurance contracts.

**3.20.1.7 Reserve for unearned premiums**

The reserve for unearned premiums consists of the proportion of net premiums retained (net of reinsurance ceded and retrocessions) that is estimated to be earned in subsequent months. This is calculated separately for each insurance contract using the daily pro-rata method.

The Insurance Company recognizes the reserve of unearned premiums at the moment of the issuance of the policy/endorsement according to the effective date of the same. This unearned premium reserve is recognized gross in the balance sheet where the portion corresponding to the unearned premiums for the insurance contracts issued and in force at the valuation date are presented under the heading of provisions for insurance contracts and the unearned portion corresponding to the related reinsurance on such contracts is presented under the item line of reinsurers' participation in the provisions for insurance contracts.

**3.20.1.8 Liabilities subject to the liability adequacy test**

Where a deficit is identified in an insurance business provision, an additional provision is accumulated and the Insurer recognizes the deficiency in the consolidated statement of profit or loss and other comprehensive income for the year.

**3.20.1.9 Claims**

Claims are recognized in the consolidated statement of profit or loss and other comprehensive income based on an estimate of the liabilities expected to be settled to policyholders and/or third parties, in accordance with the coverage of the policy. These include direct or indirect claims and settlement costs that have occurred up to the date of the consolidated statement of financial position, even when they have not been reported to the Insurer. The Insurer does not discount liabilities for claims that have not been paid. Liabilities for unpaid claims are estimated using individual assessment inputs for cases that have been reported to the Insurer and statistical actuarial analyses for incurred claims that have not been reported.

Liabilities for incurred but unreported claims are estimated using standard actuarial methods accepted worldwide in the market.

The results of this study are calculated by an independent actuary. Any adjustments arising after a study or review are applied to the current operation.

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Claims in process and payment of future benefits

Claims arising from general insurance business consist of claims and their handling expenses paid during the year along with the movement in the provision for claims receivable. Claims in process consists of the accumulation of final costs to settle all reported and incurred claims as of the date of the consolidated statement of financial position and are analyzed on an individual basis and through provisions for claims incurred but not yet reported. Incurred but unreported claims are those that occur at a time interval during the life of the policy, but are known subsequent to the closing or valuation date of an accounting period.

The Insurance Company incorporates the expenses of the liquidation of the claims in the valuation of the claims reserve, in order to effectively reflect the total expense that will be incurred by the obligations derived from the insurance contracts. The gross reserve for claims in process is presented in the consolidated statement of financial position under insurance liabilities. In the event that the claim involves reinsurers, such recoveries should also be considered "gross" and recognized as an asset presented in the statement of financial position in the reinsurers' share of insurance liabilities. Reinsurance and other recoveries are evaluated in a similar manner to the evaluation of claims in process.

The Insurer believes that gross provisions for claims in process and associated amounts recoverable from reinsurers are reasonably presented based on information that is available, the final liability may vary as a result of subsequent information and could result in significant adjustments to the provision amounts. The method used and the estimates made are reviewed regularly; any adjustments arising after a study or review are applied to the current operation.

Recoveries, salvages and subrogations

The Insurance Company recognizes the recoveries and/or subrogations of third parties in its financial statements, as a reduction of the cost of the loss as well as the salvage that is generated in the sale of damaged goods, which are normally applied against payment of the loss.

3.20.1.10 Reinsurance claims

Reinsurance claims are recognized when the related gross insurance claim is recognized in accordance with the terms of the respective contract.

3.20.1.11 Policy acquisition costs

Commissions and other policy acquisition costs that are related to the acquisition of a contract or renewal of an existing contract are capitalized and presented as deferred policy acquisition costs. Other costs are charged against expenses when incurred. Deferred costs are subsequently amortized over the life of the contract.

Any deferred costs or intangible assets derecognized are not subsequently reversed.

3.20.1.12 Classification of reinsurance contracts

In the normal course of business, the Insurer seeks to limit its loss exposure to each policyholder and to recover a portion of the benefits paid through reinsurance assignments to other insurance or reinsurance entities under proportional, non-proportional and co-insurance contracts.

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The Insurer has a policy of assigning a portion of the risk of its policies under proportional agreements, 20% withholding and 80% reinsurance assignment for property contracts, 30% withholding and 70% reinsurance assignment for miscellaneous contracts, 5% withholding and 95% reinsurance assignment for surety agreements. The maximum withholding per line of business has been set as follows: fire and allied and technical lines for B/.100,000; bonds B/.250,000; miscellaneous up to B/.100,000; automobile B/.100,000.

As established in the reinsurance agreements, reinsurance premiums assigned are recorded as an expense in the period in which they are incurred and reported to the reinsurer in the period underwritten. The difference between the reported assigned premium and the incurred assigned reinsurance premium is presented under the reinsurers' share of liabilities on insurance contracts in the statement of financial position. Claims are reported to the reinsurer and credited to the statements of account when they are paid, except for those that exceed the minimum claim notice amount included in the reinsurance contracts. The insurer's profits to compensate for losses from incurred and unpaid claims are recognized as an asset for reinsurers' share of the liabilities on the insurance contracts.

At each reporting date, the Insurer assesses the impairment on assets for reinsurance contracts. If there is objective evidence that a reinsurance asset is impaired, the Insurer reduces the carrying value of its reinsurance asset to the recoverable amount and recognizes an impairment loss. The impairment analysis factors used by the Insurer are the same as those used for the evaluation of financial assets.

**3.20.1.13 Accounts receivable and payable for reinsurance contracts**

The Insurer has reinsurance contracts that transfer significant insurance risk. The Insurer assigns insurance risks by reinsurance in the normal course of business, with settlement and withholding limits varying by product line. Outgoing reinsurance premiums are generally accounted for in the same accounting period as the premiums for the related direct business being reinsured.

Reinsurance recoveries are accounted for in the same accounting period as the direct claims to which they relate.

Reinsurance assets include balances due from reinsurance companies for assigned insurance liabilities. The amounts recoverable from reinsurers are estimated consistently with the reserves of claims in process or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

A reinsurance bad debt provision is assessed with respect to reinsurance debtors to allow for the risk that the reinsurance asset may not be collected or when the reinsurer's credit rating has been significantly lowered. This also includes an assessment of the assigned portion of the claim reserves to reflect the counterparty risk exposure of the long-term reinsurance assets, particularly in relation to periodic payments. Increases in this provision affect the Insurer by reducing the carrying value of the asset and the impairment loss is recognized in the income statement.

**3.21 Segment information**

A business segment is a component of the Bank that engages in business activities in which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with the other components of the Bank, whose operating results are regularly reviewed by the Bank's Board of Directors, for decisions about resources to be allocated to the segment and to evaluate its performance, and for which financial information is available for this purpose.



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#### **3.22 Non-controlling interest**

Non-controlling interest represents the participation of minority shareholders in consolidated subsidiaries and includes the amount of equity, including the portion of the year's result attributed to them. When the losses attributable to the non-controlling interest exceed the value of their interest in the equity of the corresponding entity, such excess is allocated to the controlling interest even if this results in a deficit balance. If such subsidiary subsequently obtains operating profits, these will be allocated to the controlling interest until the amount of the non-controlling interest is recovered in the losses that were previously absorbed in its capacity as majority interest.

#### **3.23 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.

#### **3.24 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 5).

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

### **4. Financial risk management**

#### **4.1 Objectives of financial risks management**

The activities of the Bank are exposed to a variety of financial risks and those activities include the analysis, evaluation, acceptance and management of a certain degree of risk or combination of risks. Taking risks is inherent 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 returns of the Bank.

The activities of the Bank are mainly related to 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

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The Board of Directors of the Bank has the responsibility to establish and overlook the policies on financial instruments risk management. For this purpose, it has appointed committees that are in charge of the administration and periodic surveillance of the risks to which the Bank is exposed. These committees are as follows:

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

Additionally, the Bank is subject to the regulations of the Superintendency of Capital Markets of Panama and the Superintendency of Banks of Panama, regarding risk concentration, 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 provisions of the National Council of Supervision of the Financial System (CONASSIF) and the General Superintendency of Financial Entities (SUGEF), which issue regulations regarding the comprehensive administration of risks and capital structure, among others.

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

#### **4.1 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.

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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 regard 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, 2020, 9.62% (2019: 29.75%) 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.

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Considerations to the credit loss model due to COVID-19

Since the World Health Organization's declaration of a global pandemic in respect to the COVID-19 outbreak, the global response to this disease has caused significant disruptions to business activities around the world, leading to an unprecedented economic slowdown. This has led to restructuring and grace periods for some Bank loans.

Given the recent nature of this situation and that there is no close history, the Bank made some temporary adjustments to its model to reasonably reflect possible future credit losses due to the effect that this situation could generate.

For the year ending June 30, 2020, and given the effects on the economy as a result of COVID-19, the Bank has incorporated adjustments in the credit rating analysis and in said adjustment, the Bank seeks to mediate the risk increase in some qualitative variables such as sector volatility, outlook and maturity which are the most affected due to the current situation. The impact of this adjustment was an increase in the allowance for expected losses in the amount of B/.1,553,477.

Through this analysis in which each debtor was reviewed an important increase in the credit rating of the debtors was observed with respect to the initial rating they had before the arrival of COVID-19.

**4.2.1 Credit quality analysis**

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

	<b>Maximum exposure</b>	
	<b>2020</b>	<b>2019</b>
Deposits in banks	144,766,638	168,405,790
Financial assets at fair value through profit or loss	10,475,957	18,583,184
Financial assets at fair value through other comprehensive income	138,615,846	122,728,669
Loan portfolio	432,612,115	540,827,931
Premiums receivable	10,538,382	-
Reinsurers' share in the liabilities of insurance contracts	16,998,807	-
Surrogate bonds	6,118,507	-
Co-insurance receivables	542,567	-
Total	<u>760,668,819</u>	<u>850,545,574</u>

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	<b>Maximum exposure</b>	
	<b>2020</b>	<b>2019</b>
Credit risk exposure related to		
off balance operations		
Endorsements and guarantees	3,809,267	7,224,125
Promissory notes	3,423,975	13,707,252
Unused granted credit lines	3,008,334	11,084,275
Total	10,241,576	32,015,652

The table above represents the most critical scenario of credit risk exposure to the Bank at June 30, 2020 regardless of credit guarantees or of another increase of exposure to credit risk.

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

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The following table analyzes the credit quality of the loan portfolio amortized cost and off-balance sheet operations:

<b>2020</b>	<b>Bucket 1, 12-month ECLs</b>	<b>Bucket 2, lifetime ECLs</b>	<b>Bucket 3, lifetime ECLs</b>	<b>Total</b>
<b>Corporate</b>				
Rating 1-2	124,744,917	-	-	124,744,917
Rating 2-3	146,795,084	48,871,678	6,178,066	201,844,828
Rating NA	25,569,780	-	-	25,569,780
Gross carrying amount	297,109,781	48,871,678	6,178,066	352,159,525
Allowance for ECLs	(1,422,586)	(1,277,999)	(1,950,626)	(4,651,211)
Carrying amount	295,687,195	47,593,679	4,227,440	347,508,314
<b>Consumer</b>				
Current	34,300,203	-	-	34,300,203
1-30 days of delinquency	264,287	19,668	-	283,955
More than 90 days of delinquency	-	-	910,858	910,858
Gross carrying amount	34,564,490	19,668	910,858	35,495,016
Allowance for ECLs	(18,593)	(38)	(703,248)	(721,879)
Carrying amount	34,545,897	19,630	207,610	34,773,137
<b>Home mortgage</b>				
Current	43,686,784	-	-	43,686,784
More than 90 days of delinquency	-	-	1,746,731	1,746,731
Gross carrying amount	43,686,784	-	1,746,731	45,433,515
Allowance for ECLs	(119,319)	-	(405,956)	(525,275)
Carrying amount	43,567,465	-	1,340,775	44,908,240
<b>Credit cards</b>				
Current	598,680	-	-	598,680
1-30 days of delinquency	519,316	-	-	519,316
31-60 days of delinquency	-	49,741	-	49,741
61-90 days of delinquency	-	64,395	-	64,395
More than 90 days of delinquency	-	-	92,976	92,976
Gross carrying amount	1,117,996	114,136	92,976	1,325,108
Allowance for ECLs	(43,589)	(5,851)	(67,880)	(117,320)
Carrying amount	1,074,407	108,285	25,096	1,207,788
Total gross loans	376,479,051	49,005,482	8,928,631	434,413,164
Total allowance for ECLs	(1,604,087)	(1,283,888)	(3,127,710)	(6,015,685)
Total loans, net	374,874,964	47,721,594	5,800,921	428,397,479
<b>Loan commitments and guarantee contracts</b>				
Gross carrying amount	10,241,576	-	-	10,241,576
Allowance for ECLs	(155,665)	-	-	(155,665)
Carrying amount	10,085,911	-	-	10,085,911

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2019	Bucket 1, 12-month ECLs	Bucket 2, lifetime ECLs	Bucket 3, lifetime ECLs	Total
<b>Corporate</b>				
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
<b>Consumer</b>				
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
<b>Home mortgage</b>				
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
<b>Credit cards</b>				
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
Total gross loans	532,264,744	7,441,403	3,429,073	543,135,220
Total allowance for ECLs	(2,363,930)	(31,990)	(1,647,422)	(4,043,342)
Total loans, net	529,900,814	7,409,413	1,781,651	539,091,878
<b>Loan commitments and guarantee contracts</b>				
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

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Processing of the planned moratorium - COVID-19

The Bank granted a grace period to borrowers affected in their personal activities by COVID-19, until June 30, 2020. On May 4, 2020, the Government of Panama and the Panama Banking Association signed an agreement whereby the members of the Banking Association agreed (i) to extend such grace period until December 31, 2020 to any borrower whose business or personal activities were affected by COVID-19 and who so requested this, whose extension applies to mortgage loans, personal loans, automobile loans, credit cards, SME loans and commercial loans, and (ii) not to exclude mortgages granted to borrowers affected by COVID-19 who have loans with extended grace periods.

On June 30, 2020, the Panamanian Government issued Law No. 156, which grants a moratorium until December 31, 2020 on loan payments to any borrower who can prove that COVID-19 has affected his or her business or personal activities. Under the terms of the statute, the moratorium applies to mortgage loans, personal loans, automobile loans, credit cards, SME loans, commercial loans, loans to the transportation sector, loans to the agricultural and livestock sector, and consumer loans.

The modified loans resulting from the moratorium granted by COVID-19 as at June 30, 2020 by sector and by bucket are detailed below:

Sector	Guaranteed					Not guaranteed		
	No. of Accts	Balance	No. of Accts	Bucket 1, 12-month ECL	Bucket 2, ECLs during lifetime	No. of Accts	Bucket 1, 12-month ECL	Bucket 2, ECLs during lifetime
<b>Consumer</b>								
Non-preferential Mortgage portfolio	69	15,369,863	69	15,369,863	-	0	-	-
Car loans	2	58,052	2	58,052	-	0	-	-
Personal loans	10	8,186,542	7	8,102,498	-	3	84,044	-
Gross carrying value	81	23,614,457	78	23,530,413	-	3	84,044	-
Allowance for ECLs		(32,099)		(30,232)	-		(1,867)	-
Net carrying value		<u>23,582,358</u>		<u>23,500,181</u>	-		<u>82,177</u>	-
<b>Corporate</b>								
Commercial aviation	2	333,332	2	333,332	-		-	-
Trade	7	1,137,375	6	368,977	711,873	1	-	56,525
Construction	92	24,270,809	87	17,894,168	1,200,000	5	5,176,641	-
Hotels	3	6,922,243	2	3,200,000	2,799,885	1	-	922,358
Real estate (sale / lease )	14	36,331,124	14	14,261,184	22,069,940	0	-	-
Mines and quarries	3	1,496,586	3	1,496,586	-	0	-	-
Restaurants	8	4,043,708	1	3,715,000	-	7	328,708	-
Services	51	15,070,237	10	3,086,196	3,150,000	41	6,654,012	2,180,029
Gross carrying value	180	89,605,414	125	44,355,443	29,931,698	55	12,159,361	3,158,912
Allowance for ECLs		(1,558,889)		(101,454)	(642,515)		(347,041)	(467,879)
Net carrying value		<u>88,046,525</u>		<u>44,253,989</u>	<u>29,289,183</u>		<u>11,812,320</u>	<u>2,691,033</u>
Total gross carrying value	261	113,219,871		67,885,856	29,931,698		12,243,405	3,158,912
Total allowance for ECLs		(1,590,988)		(131,686)	(642,515)		(348,908)	(467,879)
Net carrying value		<u>111,628,883</u>		<u>67,754,170</u>	<u>29,289,183</u>		<u>11,894,497</u>	<u>2,691,033</u>



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	<b>Bucket 1, 12-month ECL</b>	<b>Bucket 2, ECLs during lifetime</b>	<b>Bucket 3, ECLs during lifetime</b>	<b>Total</b>
Modified loans				
Consumer	23,614,457	-	-	23,614,457
Corporate	56,514,804	33,090,610	-	89,605,414
	80,129,261	33,090,610	-	113,219,871
(+) Accrued interest receivable	1,937,073	805,274	-	2,742,347
Total	82,066,334	33,895,884	-	115,962,219
<b>Provisions</b>				
IFRS 9 provision	480,594	1,110,394	-	1,590,988
Modified loans secured by pledged deposits at the same bank up to the guaranteed amount	6,482,834	-	-	6,482,834

At the end of June 30, 2020, the operations that underwent changes were included in the scope of the moratorium, which aims to avoid a prolonged economic impact beyond the COVID-19 health crisis. Since these moratoriums are respectively based on the application of national legislation, the conditions do not require that operations be recorded as refinancing or restructuring when the borrower, still having liquidity difficulties, has not deteriorated capital adequacy prior to COVID-19.

Below is the percentage of the value with of the modified loans, including interests, that as of June 30, 2020 do not present payment in their installments counted from the last installment payment recorded at the time of the credit modification:

	<b>Up to 90 days</b>	<b>Between 91 and 120 days</b>	<b>Between 121 and 180 days</b>	<b>Between 181 and 270 days</b>
Consumer loans	9%	1%	0%	0%
Corporate loans	8%	5%	2%	0%

Considerations to the credit loss model due to COVID-19

Since the World Health Organization's declaration of a global pandemic in the wake of the COVID-19 outbreak, the global response to this disease has caused significant disruptions to business activities around the world, leading to an unprecedented economic slowdown. This has led to the granting of grace periods for some Bank loans.

For the year ending June 30, 2020, and given the effects on the economy resulting from COVID-19, the Bank has comprehensively reviewed its portfolio and the nature of its guarantee coverage. Through this review, the Bank seeks to measure the increase in risk in some qualitative variables such as sector volatility, outlook and maturity which are the most affected due to the current situation.

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Through this analysis, in which each debtor was reviewed, a change in the credit rating of certain debtors was proposed with respect to the initial rating they had before the arrival of the COVID-19; this change in rating is associated with a higher probability of default that more accurately reflects the impact of the COVID-19 and therefore incorporates the "forward looking" effect. This had an impact on expected credit loss, which increased from an average of 2.521% to 2.967%, especially in positions where there is no real risk mitigant. On the other hand, the Bank conducted a collateral evaluation of the credit portfolio and used a lower weighting than previously used, thus taking a more conservative position on prices due to market volatility.

**Determining a significant increase in modified loan risk**

Postponement of loan payments or modified loans established by Agreement No. 2-2020 does not automatically mean a significant increase in credit risk for these loans since a significant portion of these loans address temporary liquidity events generated by the economic shutdown or decline caused by the pandemic. As part of the expected loss methodology, the Bank has mechanisms for identifying the significant increase in risk applicable in general terms to the credit portfolio, based on quantitative and qualitative methodologies that incorporate, among other components, behavioral scoring models for consumer debtors and internal rating models for corporate debtors.

The assessment for recognition of expected credit losses over the life of the modified loans considers credit risk based on the best available quantitative and qualitative information on the current circumstances of borrowers and the impact of COVID-19.

As part of the Bank's risk management, both individual and collective analyses of the condition of the loans have been developed, including the segmentation of the portfolio with the objective of identifying the employment situation or opening of economic activity of each client and defining who will be able to comply with their banking obligations, who will have difficulties in doing so and which ones will definitely not be able to comply and thus determine if there has been a significant increase in risk and classify these loans according to the corresponding stage of impairment. Additionally, different agreements have been reached with clients based on individual analysis of their capacity to generate cash flows necessary to meet their obligations.

As time goes by and the new normality returns, the Bank is obtaining more information from debtors, which will complement the analysis and identification of the increase in risk for the modified loans, either by segment or individually. In order to identify the significant increase in credit risk of the modified loans, the Bank considers the following factors associated to the current COVID-19 situation:

1. For the consumer portfolio, the affectation of clients is determined through conditions related to the aging of the last payment received and causal factors such as: contract termination, suspended contract and decrease in income.
2. With respect to the corporate portfolio, clients are evaluated on a case-by-case basis to determine the impact of COVID-19 on the business, the economic activity in which it operates and any conditions of vulnerability that may be identified in the context of future economic conditions.

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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.

<b>2020</b>	<b>12-month ECL</b>	<b>Lifetime ECL without credit impairment</b>	<b>Lifetime ECL with credit impairment</b>	<b>Valuation of the credit risk</b>
Domestic:				
AAA to BBB-	83,645	-	-	83,645
BBB to B-	-	-	-	-
Domestic carrying value	83,645	-	-	83,645
Foreign:				
A- to BBB+	2,499	-	-	2,499
BB+ to B-	114,564	-	-	114,564
Foreign carrying value	117,063	-	-	117,063
Total carrying value	200,708	-	-	200,708
<b>2019</b>	<b>12-month ECL</b>	<b>Lifetime ECL without credit impairment</b>	<b>Lifetime ECL with credit impairment</b>	<b>Valuation of the credit risk</b>
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 value				
Total carrying value	73,699	-	-	73,699

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.

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As of June 30, 2020, the Bank did not maintain balances placed (2019: B/.15,200,000 (58%)) in investment grade institutions or cash collaterals.

The Bank's portfolio consists of highly liquid 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.

	2020		2019	
	Financial assets at FVTPL	Financial assets at FVTOCI	Financial assets at FVTPL	Financial assets at FVTOCI
Maximum exposure				
Carrying amount	10,475,957	138,615,846	18,583,184	122,728,668
Investment grade	8,861,641	86,663,048	18,525,448	47,462,789
Standard monitoring	28,293	15,604,508	57,736	75,265,879
Without rating	1,586,023	36,348,290	-	-
Total	10,475,957	138,615,846	18,583,184	122,728,668

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

Investment grade  
Standard monitoring  
Special Monitoring  
Without rating

#### External qualification

AAA, AA+, AA-, A+, A-, BBB+, BBB, BBB-  
BB+, BB, BB-, B+, B, B-  
CCC to C  
-

#### 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.

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

	<b>Exposure % subject to collateral requirements</b>		<b>Type of guarantee</b>
	<b>2020</b>	<b>2019</b>	
Loan portfolio	73%	74%	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.

	<b>2020</b>	<b>2019</b>
Residential mortgage loans :		
Less than 50%	6,257,465	8,884,753
51% - 70%	11,746,567	13,492,122
71% - 90%	13,636,942	9,511,866
More than 90%	5,935,278	7,531,304
Total	37,576,252	39,420,045

**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:

	<b>2020</b>		<b>2019</b>	
	<b>Loans</b>	<b>Financial assets at fair value</b>	<b>Loans</b>	<b>Financial assets at fair value</b>
Concentration by sector				
Corporate	355,630,933	117,997,023	472,300,934	121,676,301
Consumer	83,873,036	1,711,441	73,699,213	-
Government	-	29,383,339	-	19,635,552
	439,503,969	149,091,803	546,000,147	141,311,853
Geographical concentration:				
Panama	230,405,055	68,943,311	311,984,327	78,353,025
Latin America and Caribbean	204,436,834	27,316,732	226,479,473	33,331,675
North America	4,620,610	46,162,016	7,479,593	26,278,982
Europe, Asia and Oceania	41,470	6,669,744	56,754	3,348,171
	439,503,969	149,091,803	546,000,147	141,311,853

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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:

	2020	2019
Credit portfolio at amortized cost	6,015,685	4,043,342
Commitments and contingencies	155,665	151,619
Financial assets	200,708	73,699
Deposits in bank	67,875	31,370
	<hr/>	<hr/>
Total	6,439,933	4,300,030

**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 statement of 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.

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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:

	2020	2019
<b>At end of the year</b>	<b>49%</b>	<b>52%</b>
Year average	46%	44%
Year maximum	51%	52%
Year minimum	42%	38%

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:

2020	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
<b>Financial assets</b>						
Deposits in banks	141,030,836	836,514	1,549,288	1,350,000	-	144,766,638
Financial assets at FVTPL	6,497,534	-	-	518,022	3,460,401	10,475,957
Financial assets at FVTOCI	62,599,466	4,726,840	10,055,677	44,255,966	16,977,897	138,615,846
Loans	25,019,163	42,311,353	105,458,619	143,946,179	122,768,655	439,503,969
<b>Total financial assets</b>	<b>235,146,999</b>	<b>47,874,707</b>	<b>117,063,584</b>	<b>190,070,167</b>	<b>143,206,953</b>	<b>733,362,410</b>
<b>Financial liabilities</b>						
Client deposits	292,139,259	20,805,739	154,669,704	86,676,596	-	554,291,298
Interbank deposits	17,533,836	-	-	-	-	17,533,836
Securities sold under repurchase agreements	86,171	10,014,934	2,405,916	-	-	12,507,021
Borrowings received	2,086,326	229,396	31,119,124	1,524,224	27,926	34,986,996
Notes payable	1,410,247	6,217,539	5,570,336	-	-	13,198,122
Bonds payable	-	4,011,293	27,984,414	19,774,525	-	51,770,232
Lease liability	-	-	810,816	1,682,738	-	2,493,554
<b>Total financial liabilities</b>	<b>313,255,839</b>	<b>41,278,901</b>	<b>222,560,310</b>	<b>109,658,083</b>	<b>27,926</b>	<b>686,781,059</b>
Total sensitivity to interest rate	(78,108,840)	6,595,806	(105,496,726)	80,412,084	143,179,027	46,581,351

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2019	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
<b>Financial assets</b>						
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
<b>Total assets</b>	<b>257,857,010</b>	<b>54,483,305</b>	<b>195,612,765</b>	<b>204,885,684</b>	<b>144,333,636</b>	<b>857,172,400</b>
<b>Financial liabilities</b>						
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
Borrowings 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
<b>Total liabilities</b>	<b>358,261,973</b>	<b>64,089,168</b>	<b>256,545,214</b>	<b>102,271,621</b>	<b>-</b>	<b>781,167,976</b>
<b>Net position</b>	<b>(100,404,963)</b>	<b>(9,605,863)</b>	<b>(60,932,449)</b>	<b>102,614,063</b>	<b>144,333,636</b>	<b>76,004,424</b>

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.

2020	Carrying amount	Undiscounted cash flows	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
<b>Financial liabilities</b>						
Client deposits	554,291,298	567,431,645	472,083,183	48,644,692	46,703,770	-
Interbank deposits	17,533,836	17,530,912	17,530,912	-	-	-
Securities sold under repurchase agreements	12,507,021	12,442,139	12,442,139	-	-	-
Financing received	34,986,996	35,966,078	33,280,373	129,338	2,528,441	27,926
Documents payable	13,198,122	13,496,976	13,496,976	-	-	-
Bonds payable	51,770,232	55,243,889	33,275,834	19,717,522	2,250,533	-
Lease liability	2,493,554	2,493,554	810,816	1,682,738	-	-
<b>Total financial liabilities</b>	<b>686,781,059</b>	<b>704,605,193</b>	<b>582,920,233</b>	<b>70,174,290</b>	<b>51,482,744</b>	<b>27,926</b>
2019	Carrying amount	Undiscounted cash flows	Up to 1 year	From 1 to 2 years	From 2 to 5 years	More than 5 years
<b>Financial liabilities</b>						
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 agreements	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	-	-
<b>Total financial liabilities</b>	<b>781,167,976</b>	<b>805,307,532</b>	<b>694,891,918</b>	<b>60,821,048</b>	<b>48,513,075</b>	<b>1,081,491</b>



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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 approximately B/.33,000,000 (2019: B/.21,825,944), 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, 2020, these lines had an available value of B/.25,000,000 (2019: B/.25,000,000).

#### **4.3.2 Financial assets given in guarantee**

Total financial assets recognized in the consolidated statement of financial position that have been pledged as collateral for liabilities at June 30, 2020 amount to B/.15,502,897 (2019: B/.10,151,187).

### **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.

#### **Market risk management:**

The Board of Directors of the Bank establishes and approves 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.

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Exposure to market risk:

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:

	2020				
	Colones expressed in USD	Euros expressed in USD	CHF expressed in USD	Other currencies expressed in USD	Total
<b>Exchange rate</b>	<b>583.49</b>	<b>1.1246</b>	<b>1.051414</b>		
Deposits in banks	6,203,755	28,252,097	4,705,617	9,561,508	48,722,977
Financial instruments	12,771,335	5,596,742	-	-	18,368,077
Loans	30,204,218	-	-	-	30,204,218
<b>Total financial assets</b>	<b>49,179,308</b>	<b>33,848,839</b>	<b>4,705,617</b>	<b>9,561,508</b>	<b>97,295,272</b>
Client deposits	27,453,481	30,065,725	4,121,342	9,485,907	71,126,455
Securities sold under repurchase agreement	85,846	-	-	-	85,846
<b>Total financial assets</b>	<b>27,539,327</b>	<b>30,065,725</b>	<b>4,121,342</b>	<b>9,485,907</b>	<b>71,212,301</b>
<b>Total net currency positions</b>	<b>21,639,981</b>	<b>3,783,114</b>	<b>584,275</b>	<b>75,601</b>	<b>26,082,971</b>

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	Colones expressed in USD	Euros expressed in USD	2019 CHF expressed in USD	Other currencies expressed in USD	Total
<b>Exchange rate</b>	<b>576.72</b>	<b>1.1371</b>	<b>0.976</b>		
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
<b>Total financial assets</b>	<b>50,548,693</b>	<b>26,916,983</b>	<b>8,666,438</b>	<b>1,089,333</b>	<b>87,221,447</b>
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
<b>Total financial liabilities</b>	<b>40,464,362</b>	<b>23,159,147</b>	<b>8,733,214</b>	<b>1,085,228</b>	<b>73,441,951</b>
<b>Total net currency positions</b>	<b>10,084,331</b>	<b>3,757,836</b>	<b>(66,776)</b>	<b>4,105</b>	<b>13,779,496</b>

**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.

2020	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
<b>Financial assets:</b>						
Deposits in banks	141,030,836	836,514	1,549,288	1,350,000	-	144,766,638
Financial assets at FVTPL	6,497,534	-	-	518,022	3,460,401	10,475,957
Financial assets at FVTOCI	62,599,466	4,726,840	10,055,677	44,255,966	16,977,897	138,615,846
Loans	25,019,163	42,311,353	105,458,619	143,946,179	122,768,655	439,503,969
<b>Total financial assets</b>	<b>235,146,999</b>	<b>47,874,707</b>	<b>117,063,584</b>	<b>190,070,167</b>	<b>143,206,953</b>	<b>733,362,410</b>
<b>Financial liabilities:</b>						
Deposits from customers	292,139,259	20,805,739	154,669,704	86,676,596	-	554,291,298
Deposits from banks	17,533,836	-	-	-	-	17,533,836
Securities sold under repurchase agreements	86,171	10,014,934	2,405,916	-	-	12,507,021
Borrowings	2,086,326	229,396	31,119,124	1,524,224	27,926	34,986,996
Notes payable	1,410,247	6,217,539	5,570,336	-	-	13,198,122
Bonds payable	-	4,011,293	27,984,414	19,774,525	-	51,770,232
Lease liabilities	-	-	810,816	1,682,738	-	2,493,554
<b>Total financial liabilities</b>	<b>313,255,839</b>	<b>41,278,901</b>	<b>222,560,310</b>	<b>109,658,083</b>	<b>27,926</b>	<b>686,781,059</b>
Total sensitivity to interest rate	(78,108,840)	6,595,806	(105,496,726)	80,412,084	143,179,027	46,581,351

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2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
<b>Financial assets:</b>						
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
<b>Total financial assets</b>	<b>257,857,010</b>	<b>54,483,305</b>	<b>195,612,765</b>	<b>204,885,684</b>	<b>144,333,636</b>	<b>857,172,400</b>
<b>Financial liabilities:</b>						
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
<b>Total financial liabilities</b>	<b>358,261,973</b>	<b>64,089,168</b>	<b>256,545,214</b>	<b>102,271,621</b>	<b>-</b>	<b>781,167,976</b>
Total interest rate sensitivity	(100,404,963)	(9,605,863)	(60,932,449)	102,614,063	144,333,636	76,004,424

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
<b>2020</b>				
As at June 30	(6,159,333)	6,221,236	(12,257,682)	12,205,312
Average for the year	(6,229,244)	6,303,551	(12,408,225)	12,658,896
Maximum for the year	(5,583,914)	7,144,369	(11,112,543)	14,311,368
Minimum for the year	(7,024,968)	5,640,034	(14,027,975)	11,337,038
<b>2019</b>				
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

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.

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#### **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 14.20% (2019:13.45%) on its weighted risk-based assets.

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**5. Fair value of financial instruments**

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

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

**5.1 Financial instruments measured at fair value**

Fair value hierarchy

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

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

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

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

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.

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

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

Fair value of financial assets and liabilities 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

	<b>2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Private debt securities	489,728	489,600	-	128
Mutual funds	6,497,534	-	6,497,534	-
Government debt securities	3,488,695	1,471,169	1,989,232	28,294
	<u>10,475,957</u>	<u>1,960,769</u>	<u>8,486,766</u>	<u>28,422</u>
	<b>2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Private debt securities	164	-	-	164
Mutual funds	18,525,284	-	18,525,284	-
Government debt securities	57,736	-	-	57,736
	<u>18,583,184</u>	<u>-</u>	<u>18,525,284</u>	<u>57,900</u>

Measurement of financial assets at fair value through other comprehensive income

	<b>2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Governmental debt securities	51,928,564	48,652,233	3,128,530	147,801
Private debt securities	47,224,969	3,153,732	16,848,769	27,222,468
Mutual funds	24,273,458	-	830,708	23,442,750
Listed shares	117,720	22,142	95,578	-
Unlisted shares	15,041,135	-	28,573	15,012,562
Preferred shares	30,000	-	30,000	-
	<u>138,615,846</u>	<u>51,828,107</u>	<u>20,962,158</u>	<u>65,825,581</u>
	<b>2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
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
	<u>122,728,669</u>	<u>41,358,063</u>	<u>3,319,481</u>	<u>78,051,125</u>

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The Bank maintains equity securities for B/.421,436 (2019: B/.7,338,687) and preferred shares for B/.30,000 (2019: 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	Discounted cash flows	Credit margin	If the credit margin increases, the price decrease and viceversa.
Equity instrument	The last purchase/sale price is taken	Observable share price or reference value	If unobservable data increases, the fair value will decrease.

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, 2020, there were no transfers between level 1 and 2.

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

	2020	2019
Balance at the beginning of the year	78,109,025	47,865,494
Balance of acquired subsidiary	(9,453,000)	-
Purchases and additions	20,417,315	27,335,034
Category reclassifications	(7,079,834)	6,316,967
Changes in fair value	1,541,052	(1,597,876)
Sales and redemptions	(18,535,813)	(4,006,530)
Accrued interest receivable	855,258	2,195,936
Balance at the end of the year	65,854,003	78,109,025

During 2020, investments classified as financial assets at FVTOCI, were transferred from level 2 to level 3 since certain inputs used to determine their fair value became non-observable.



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**5.2 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:

2020	Fair value hierarchy				Carrying value
	Level 1	Level 2	Level 3	Total	
<b>Financial assets:</b>					
Deposits in banks	-	-	144,766,044	144,766,044	144,766,638
Loans	-	-	431,785,502	431,785,502	439,503,969
<b>Total financial assets</b>	-	-	576,551,546	576,551,546	584,270,607
<b>Financial liabilities:</b>					
Deposits from customers	-	-	559,143,898	559,143,898	554,291,298
Deposits from banks	-	-	17,533,255	17,533,255	17,533,836
Securities sold under repurchase agreements	-	12,453,012	-	12,453,012	12,507,021
Borrowings	-	-	34,982,410	34,982,410	34,986,996
Notes payable	-	-	13,362,528	13,362,528	13,198,122
Bonds payable	-	55,982,915	-	55,982,915	51,770,232
<b>Total financial liabilities</b>	-	68,435,927	625,022,091	693,458,018	684,287,505
<b>2019</b>					
2019	Fair value hierarchy				Carrying value
	Level 1	Level 2	Level 3	Total	
<b>Financial assets:</b>					
Deposits in banks	-	-	168,366,822	168,366,822	168,405,790
Loans	-	-	543,103,508	543,103,508	546,000,147
<b>Total financial assets</b>	-	-	711,470,330	711,470,330	714,405,937
<b>Financial liabilities:</b>					
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
<b>Total financial liabilities</b>	-	57,958,395	733,892,154	791,850,549	781,167,976

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 0.88% (2019: 2.07%) 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.

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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 7.3396% (2019: 7.1879%) for the consumer portfolio, 6.693% (2019: 6.63%) for the corporate portfolio and 7.34% (2019: 7.188%) 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.

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

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

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

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

**6.1 Key principles of uncertainty in estimates**

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

**6.1.1 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.

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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.

**6.1.2 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.

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**Valuation techniques used to determine the fair values of Level 3**

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

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

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

**7. Balances and transactions with related parties**

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

	<b>Directors and key management personnel</b>	<b>Related companies</b>	<b>Associated companies</b>	<b>Total</b>
<b>2020</b>				
<b>Assets</b>				
Investments in other entities	-	-	125,000	125,000
Financial assets at FVTOCI	-	-	3,866,045	3,866,045
Loans	11,186,185	19,788,761	229,913	31,204,859
Other assets	-	-	548,303	548,303
<b>Liabilities</b>				
Deposits from customers	12,198,285	40,882,996	21,458,426	74,539,707
Other liabilities	-	17,757	57,516	75,273
<b>Income and expenses</b>				
Interest income	489,154	2,043,308	123,456	2,655,918
Interest expenses	148,369	839,562	6,357	994,288
Commission income	551	26,571	3,621,657	3,648,779
Other income	-	-	273,981	273,981
<b>Benefits for key Management personnel:</b>				
Salaries and other wages	3,982,999	-	-	3,982,999

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2019	Directors and key management personnel	Related companies	Associated companies	Total
<b>Assets</b>				
Investments in other entities	-	-	7,715,339	7,715,339
Financial assets at FVTOCI	-	-	12,113,506	12,113,506
Loans	10,497,127	63,460,583	-	73,957,710
Other assets	-	-	256,780	256,780
<b>Liabilities</b>				
Deposits from customers	7,853,087	46,205,068	8,959,041	63,017,196
Other liabilities	-	18,115	24,885	43,000
<b>Income and expenses</b>				
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
<b>Benefits for key Management personnel:</b>				
Salaries and other wages	3,128,571	-	-	3,128,571

Loans to related companies during the year amounted to B/.20,018,674 (2019: B/.63,460,583), at interest rates ranging between 3.75% and 18% (2019: 3.75% and 18%), with multiple maturities until 2046.

Loans granted to directors and key management personnel during the year amounted to B/.11,186,185 (2019: B/.10,497,127), at interest rates ranging between 3.75% 18%, with multiple maturities until 2045.

Cash-guaranteed loan balances to related companies amounted to B/.5,334,167 (2019: B/.37,794,686) and mortgage-guaranteed loan balances amounted to B/.10,681,359 (2019: B/.12,471,791).

Deposits of related companies during the year amounted to B/.62,341,422 (2019: B/.55,164,108), at interest rates between 0.50% and 9%, with multiple maturities until 2024.

Deposits from directors and key management personnel during the year amounted to B/.12,198,285 (2019: B/.7,853,087), at interest rates between 0.5% and 4% with multiple maturities until 2021.

As at June 30, 2020, the Bank recognized allowance for expected credit losses with respect to loans granted to related parties for B/.250,735 (2019: B/.30,676).

Prival Securities, Inc. maintains a Management Agreement with the Family of Mutual Funds. It receives a management services fee in accordance with an agreement dated March 12, 2012. Under the terms of the agreement, it receives up to 1% of total net assets from the Funds. Management, administration and custody fees as of June 30, 2020 amounted to B/.3,535,637 (2019: B/.3,020,569).

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	<b>Directors and management personnel</b>	<b>Related companies</b>	<b>Total</b>
<b>2020</b>			
<b>Off-balance sheet assets</b>			
Bank guarantees, bonds, endorsements	-	153,321	153,321
Promissory notes	116,592	-	116,592
Credit cards to be used	372,998	-	372,998
Managed assets	2,109,201	234,566,761	236,675,962
Total operations off-balance sheet assets	2,598,791	234,720,082	237,318,873
<b>2019</b>			
<b>Off-balance sheet assets</b>			
Bank guarantees, bonds, endorsements	-	2,626,462	2,626,462
Promissory notes	629,030	-	629,030
Credit cards to be used	615,866	-	615,866
Managed assets	1,772,315	453,073,869	454,846,184
Total operations off-balance sheet assets	3,017,211	455,700,331	458,717,542

**8. Cash and cash equivalents**

	<b>2020</b>	<b>2019</b>
Cash	870,605	1,005,835
Demand deposits	124,512,908	133,406,882
Time deposits	20,253,731	34,998,908
Less: Allowance for expected credit losses	(52,445)	(31,370)
Total cash and cash equivalents	145,584,799	169,380,255
Less:		
Deposits over 90 days	2,899,288	-
Restricted demand and time deposits	26,279,940	31,974,806
Cash and cash equivalents for the purpose of the consolidated statement of cash flows	116,405,571	137,405,449

As at June 30, 2020 there are no restricted deposits in Prival Bank (2019: B/.1,253,000 of which B/.200,000 were in Pershing LLC, required for the management of the investment portfolio and B/.1,053,000 in Euroclear Bank, required for the custody and settlement of exchange transactions).

The subsidiary Grupo Prival Costa Rica, S.A., holds restricted deposits for B/.26,279,940 (2019: B/.30,721,806) 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.

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The average interest rate earned on time deposits is 0.3250%, with various maturities until July 7, 2020 (2019: 1.032%, with various maturities until July 18, 2019).

**9. Securities purchased under resale agreement**

Prival Bank (Costa Rica), S.A. does not maintain a balance of investments for resale as at June 2020 (2019: B/.1,454,610, maturing in July 2019 at 6.60%). These investments were guaranteed with Costa Rican Government Property Titles for B/.1,947,219.

**10. Financial assets at fair value**

	<b>2020</b>	<b>2019</b>
Financial asset at FVTPL	10,475,957	18,583,184
Financial asset at FVTOCI	<u>138,615,846</u>	<u>122,728,669</u>
	<u>149,091,803</u>	<u>141,311,853</u>

**10.1 Financial assets at fair value through profit and loss:**

	<b>2020</b>	<b>2019</b>
<b>Securities traded in a market</b>		
Governmental debt securities	3,488,695	57,736
Private debt securities	<u>489,728</u>	<u>164</u>
	3,978,423	57,900
<b>Securities not traded in a market</b>		
Mutual funds	<u>6,497,534</u>	<u>18,525,284</u>
<b>Total financial assets at FVTPL</b>	<u>10,475,957</u>	<u>18,583,184</u>

The annual interest rates accruing financial assets at fair value are between 1.50% and 7% (2019: 2.51% and 6.25%) with various maturities until 2048 (2019: 2025).

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**a. Financial assets at fair value through other comprehensive income**

	2020	2019
<b>Securities traded in a market</b>		
Governmental debt securities	51,780,765	24,822,494
Private debt securities	47,212,345	55,264,481
Mutual funds	5,874,718	4,845,645
Preferred shares	30,000	-
Common shares	117,716	105,114
	<u>105,015,544</u>	<u>85,037,734</u>
<b>Securities not traded in a market</b>		
Government debt securities	147,801	-
Private debt securities	12,623	12,677
Common shares	15,041,138	24,942,192
Preferred shares	-	12,736,066
Mutual funds	18,398,740	-
	<u>33,600,302</u>	<u>37,690,935</u>
Total financial assets at FVTOCI	<u>138,615,846</u>	<u>122,728,669</u>

The annual interest rates accrued at FVTOCI financial assets ranged between 0.10% y 9.11% (2019: between 1.94% and 10.03%).

The Bank recognized allowance for expected credit losses for B/.200,708 for financial assets at FVTOCI which is recognized in other comprehensive income.



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**11. Loans**

Loans by type are broken down as follows:

	<b>2020</b>			<b>2019</b>		
	<b>Domestic</b>	<b>Foreign</b>	<b>Total</b>	<b>Domestic</b>	<b>Foreign</b>	<b>Total</b>
Corporate:						
Personal	20,944,326	7,993,546	28,937,872	17,671,445	6,774,996	24,446,441
Automobile	96,297	325,294	421,591	340,862	537,518	878,380
Overdrafts	15,310,172	-	15,310,172	11,766,781	1,001,409	12,768,190
Mortgages	29,673,789	8,180,574	37,854,363	26,448,527	7,322,418	33,770,945
Credit cards	796,048	552,991	1,349,039	1,103,313	731,944	1,835,257
Corporate:						
Services	94,046,575	45,628,980	139,675,555	65,079,924	52,546,826	117,626,750
Construction	29,277,013	50,254,563	79,531,576	61,752,094	61,247,894	122,999,988
Mining	1,531,362	-	1,531,362	916,240	-	916,240
Financial leasing	-	-	-	731	-	731
Industrial	14,352,591	8,814,433	23,167,024	27,676,865	8,590,018	36,266,883
Agricultural	-	8,984,351	8,984,351	3,613,800	7,675,990	11,289,790
Commercial	27,750,205	33,218,779	60,968,984	75,742,821	50,930,057	126,672,878
Financial services	3,289,598	38,482,482	41,772,080	14,741,972	41,763,689	56,505,661
Others	-	-	-	22,013	-	22,013
	<u>237,067,976</u>	<u>202,435,993</u>	<u>439,503,969</u>	<u>306,877,388</u>	<u>239,122,759</u>	<u>546,000,147</u>
Less:						
Allowance for uncollectible loans	-	-	(6,015,685)	-	-	(4,043,342)
Discounted unearned interest and commissions	-	-	(876,169)	-	-	(1,128,874)
Total loans	<u>-</u>	<u>-</u>	<u>432,612,115</u>	<u>-</u>	<u>-</u>	<u>540,827,931</u>

The movement of the allowance for expected credit losses on loans as at June 30, 2020, is summarized below:

	<b>12-month ECLs</b>	<b>ECL during total life without credit impairment</b>	<b>ECL during total life with credit impairment</b>	<b>Total</b>
<b>Balance at the beginning of the year</b>	<u>2,041,450</u>	<u>31,990</u>	<u>1,969,902</u>	<u>4,043,342</u>
<b>Country risk reclassification</b>	(1,146,469)	(4,285)	(10,277)	(1,161,031)
Transferred to 12 months	18,225	(18,225)	-	-
Transferred to total life without credit impairment	(67,806)	67,806	-	-
Transferred to total life with credit impairment	(198,783)	-	198,783	-
<b>Total transfers</b>	<u>(248,364)</u>	<u>49,581</u>	<u>198,783</u>	<u>-</u>
Write-off loans	-	-	(1,065,678)	(1,065,678)
Changes in model/risk parameters	-	397,410	-	397,410
ECL allowance charged to profit or loss				
Recalculation of the portfolio, net	781,865	312,713	2,450,464	3,545,042
New originated financial assets	226,804	496,479	783	724,066
Paid loans	(51,198)	-	(416,268)	(467,466)
<b>Total ECL allowance charged to profit or loss</b>	<u>957,471</u>	<u>809,192</u>	<u>2,034,979</u>	<u>3,801,642</u>
<b>Balance at the end of the year</b>	<u>1,604,088</u>	<u>1,283,888</u>	<u>3,127,709</u>	<u>6,015,685</u>

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

	2020	2019
Minimum financial lease payments receivable:		
Less than 1 year	46,417	59,046
1 to 5 years	978,875	244,194
Balance at the end of the year	1,025,292	303,240

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

## 12. Subsidiaries

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

Name of the subsidiary	Main activity	Place of incorporation and operations	Proportion of share participation and voting power	
			2020	2019
Prival Securities, Inc.	Brokerage firm	Panama	100%	100%
Prival Leasing, S.A.	Financial leasing	Panama	100%	100%
Prival Trust, S.A.	Trustee	Panama	100%	100%
Grupo Prival (Costa Rica), S.A.	Banking	Costa Rica	100%	100%
Prival Investment Management (BVI)	Administrator	BVI	100%	100%
Prival Private Equity Fund, S. A.	Mutual fund	Panama	100%	100%
Acerta Holding, inc	Insurance	Panama	50.13%	42.82%
Santa María Park, S. A.	Real Estate	Panama	100.00%	-

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.

On March 31, 2020, the Bank increased its shareholding in Santa María Park, S. A., making it the majority shareholder with 100% of the shares.

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**13. Investments in other entities**

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

<u>Name</u>	<u>Activity</u>	<u>Country of incorporation</u>	<u>% of interest</u>		<u>2020</u>	<u>2019</u>
			<u>2020</u>	<u>2019</u>		
Acerta Holdings, S. A. (i)	Insurance company	Panama	50.13%	42.82%	-	7,590,339
Prival Bond Fund, S.A. (ii)	Mutual fund	Panama	-	-	25,000	25,000
Prival Multi Strategy Income and Growth Fund, S.A. (ii)	Mutual fund	Panama	-	-	25,000	25,000
Prival Mila Fund, S. A. (ii)	Mutual fund	Panama	-	-	25,000	25,000
Prival Real Estate Fund (ii)	Mutual fund	Panama	-	-	50,000	50,000
					<u>125,000</u>	<u>7,715,339</u>

- (i) The investment in Acerta Holdings, S.A. was accounted for using the equity method. On September 9, 2019, the Bank increased its shareholding in Acerta Holdings, S.A., becoming the majority shareholder with 50.13% of the shares, so it was incorporated to the Bank as a subsidiary (see Note 12). This transaction has been approved by the Superintendency of Banks of Panama and the Superintendency of Insurance and Reinsurance of Panama.
- (ii) The Bank holds 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.

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**14. Property, furniture, equipment and improvements**

Property, furniture, equipment and improvements are detailed below:

<b>2020</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Decreases and reclassification</b>	<b>Subsidiary acquired</b>	<b>Effect from revaluation</b>	<b>Ending balance</b>
<b>Cost</b>						
Land	592,356	-	-	8,120,252	2,679,748	11,392,356
Building	1,862,748	9,586	-	-	-	1,872,334
Furniture and fixtures	1,085,501	16,000	(9,302)	392,607	-	1,484,806
Office equipment	38,029	10,124	-	635,627	-	683,780
Communication equipment	103,594	-	-	-	-	103,594
Vehicles	269,415	126,876	(109,023)	170,989	-	458,257
Leasehold improvements	3,528,176	27,157	-	116,125	-	3,671,458
Construction in progress	-	4,072,710	-	9,999,447	-	14,072,157
Computer equipment	1,030,899	10,394	(33,406)	1,179,804	-	2,187,691
	<u>8,510,718</u>	<u>4,272,847</u>	<u>(151,731)</u>	<u>20,614,851</u>	<u>2,679,748</u>	<u>35,926,433</u>
<b>Accumulated depreciation and amortization</b>						
Building	174,154	41,708	-	358,838	-	574,700
Furniture and fixtures	644,986	119,353	(8,324)	619,445	-	1,375,460
Office equipment	22,189	13,796	-	-	-	35,985
Communication equipment	79,552	18,341	-	-	-	97,893
Vehicles	101,383	39,292	(53,074)	117,158	-	204,759
Leasehold improvements	2,047,279	548,406	-	94,887	-	2,690,572
Computer equipment	827,245	165,806	(33,405)	967,836	-	1,927,482
	<u>3,896,788</u>	<u>946,702</u>	<u>(94,803)</u>	<u>2,158,164</u>	<u>-</u>	<u>6,906,851</u>
<b>Net value</b>	<u>4,613,930</u>	<u>3,326,145</u>	<u>(56,928)</u>	<u>18,456,687</u>	<u>2,679,748</u>	<u>29,019,582</u>

  

<b>2019</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Decreases and reclassification</b>	<b>Ending balance</b>
<b>Cost</b>				
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
	<u>8,293,987</u>	<u>216,731</u>	<u>-</u>	<u>8,510,718</u>
<b>Accumulated depreciation and amortization</b>				
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
	<u>2,930,068</u>	<u>966,720</u>	<u>-</u>	<u>3,896,788</u>
<b>Net value</b>	<u>5,363,919</u>	<u>(749,989)</u>	<u>-</u>	<u>4,613,930</u>

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**15. Intangible assets and goodwill**

	<b>2020</b>	<b>2019</b>
Intangible assets	3,658,692	2,901,181
Goodwill	13,284,741	7,935,579
	<u>16,943,433</u>	<u>10,836,760</u>

**15.1 Intangible assets**

<b>2020</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Decreases</b>	<b>Subsidiary acquired</b>	<b>Ending balance</b>
<b>Cost:</b>					
Software and licenses	4,816,121	1,268,935	(13,234)	487,463	6,559,285
Deposits' portfolio	2,790,000	-	-	-	2,790,000
Health portfolio	-	-	(324,196)	745,653	421,457
<b>Total</b>	<u>7,606,121</u>	<u>1,268,935</u>	<u>(337,430)</u>	<u>1,233,116</u>	<u>9,770,742</u>
<b>Accumulated amortization:</b>					
Software	3,929,941	1,137,084	(13,234)	-	5,053,791
Deposits' portfolio	775,000	186,000	-	-	961,000
Health portfolio	-	97,259	-	-	97,259
	<u>4,704,941</u>	<u>1,420,343</u>	<u>(13,234)</u>	<u>-</u>	<u>6,112,050</u>
Net intangible assets	<u>2,901,180</u>				<u>3,658,692</u>

  

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

For the year ended June 30, 2020, the balance of additions for B/.1,268,935 (2019: B/.956,466) corresponds to acquisitions and renewals of software and licenses.

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**15.2 Goodwill**

The Bank's goodwill is as follows:

	2020	2019
Balance at the beginning of the year	7,935,579	7,935,579
Acquired subsidiary	3,784,652	-
Additional amounts recognized from business combination incurred during the year	1,564,510	-
	<u>13,284,741</u>	<u>7,935,579</u>

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

Company	Acquisition date	Acquired interest	2020	2019
Prival Bank Costa Rica, S.A. (Formerly Bansol)	April 21, 2015	100%	4,552,453	4,552,453
Prival Securities, Inc.	August 12, 2010	100%	3,383,126	3,383,126
Aseguradora del Istmo, S. A. (Adisa)	June 30, 2017	75%	3,784,652	-
Acerta Holding, Ing.	September 9, 2019	50.13%	1,564,510	-
			<u>13,284,741</u>	<u>7,935,579</u>

In order to test for impairment of goodwill, the Bank annually performs a valuation of the various businesses acquired and which have generated such goodwill. The calculation of the valuation of goodwill 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, Inc., 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%.

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**16. Investment property**

As at June 30, the Bank maintains a balance of B/.4,995,276, which is comprised of commercial premises, land and residences.

The fair value of investment properties as at June 30 was obtained through appraisals performed by Empresa Nacional de Avalúos (National Appraisal Company), who are independent appraisers not related to the Bank, between January and February 2020. Empresa Nacional de Avalúos are members of the Instituto de Valuaciones y Peritajes de Panamá (IVAPPAN) (Institute of Appraisals and Expertise of Panama), and have all the appropriate certifications and recent experience in the valuation of properties in the referred locations.

The movement of investment properties is presented below:

	<b>2020</b>
Beginning balance	-
Additions	4,695,620
Change in fair value	299,656
	<u>4,995,276</u>

The change in fair value is included in the consolidated statement of profit or loss and other comprehensive income within other income.

The addition of B/.4,695,620, corresponds to the transfer of a property for which an advance payment had been made in 2019.

The fair value of the investment property of B/.4,995,276 has been classified as a Level 3 fair value based on the valuation technique and significant unobservable variables used, in accordance with International Valuation Standards.

<b>Financial asset</b>	<b>Fair value</b>	<b>Hierarchy of fair value</b>	<b>Valuation techniques and main input data</b>
Investment properties	4,995,276	Level 3	Offer quoted prices in an active market-appreciation value according to demand

Below are the valuation techniques used to measure the fair value of investment properties, as well as the significant unobservable variables used.

Comparative approach

It considers sales of similar or substitute goods, as well as data obtained from the market and establishes an estimate of the value using processes that include comparison. For this method, the main characteristics that a potential buyer or seller would consider were taken into account and their estimate corresponds to the current market conditions.

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Income capitalization approach - value over income

It considers the income and expense data related to the valued assets and estimates their value through a capitalization process. The income value corresponds to the estimated annual gross income considering the real and effective rent for facilities with the characteristics and finishes of the property less the expenses.

The fair value of the property was determined through a weighting between the comparative approach and the capitalized lease method considering that the latter better reflects the fair value of the property.

**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/.8,945,654 (2019: B/.9,911,580).

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

**18. Other assets**

	2020	2019
Participation of reinsurers	16,998,807	-
Premiums receivable, net	10,538,383	-
Sugrogated bonds	6,118,507	-
Accounts receivable	4,884,686	2,366,300
Exchange operations to be settled	2,031,270	-
Prepaid other expenses	2,945,730	1,855,518
Commissions receivable	2,683,599	1,826,838
Items pending application	1,811,109	-
Prepaid taxes	1,614,994	219,112
Severance fund	1,207,859	636,259
Project in progress	899,233	406,454
Guarantee deposits	286,961	996,949
Others	1,693,043	1,091,761
	<u>53,714,181</u>	<u>9,399,191</u>

Accounts receivable increased compared to the previous year due to the balances of the acquired subsidiaries. Commissions receivable correspond mainly to structuring and brokerage services.



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Subrogated bonds correspond to disbursements made by the Insurance Company (Acerta Compañía de Seguros, S.A.) for the completion of several projects on behalf of third parties, on guarantees not fulfilled by client guarantees (subrogated guarantees), which are being managed until the delivery of the contracted projects and the collection is received at the end of the projects by the contractor. The Insurance Company maintains the administration of projects in execution which total B/.35,010,575, whose amount retained is B/.7,044,657, corresponding to subrogated bonds.

**19. Deposits from customers**

	<b>2020</b>	<b>2019</b>
Time deposits	189,585,303	338,546,711
Savings deposits	83,485,483	179,645,938
Demand deposits	<u>281,220,512</u>	<u>137,174,039</u>
Total	<u>554,291,298</u>	<u>655,366,688</u>

**20. Deposits from banks**

	<b>2020</b>	<b>2019</b>
Deposits from banks:		
Time deposits	<u>17,533,836</u>	<u>26,450,269</u>

The average annual interest rate earned on deposits ranged between 0.35% and 5.75% (2019: 0.50% and 9.08%).

**21. Securities sold under repurchase agreement**

Prival Securities (Costa Rica) Puesto de Bolsa, S.A., maintained obligations from securities sold under repurchase agreements that amounted to B/.86,171 (2019: B/.544,589), with maturity in July 2020 (2019: August 2019) and annual interest rate of 5.24% (2019: 3.65% up to 7.65%). These securities are guaranteed with bonds of the Government of Costa Rica in colones and dollars for B/.102,968 (2019: B/.816,743).

Prival Bank, S.A. had obligations arising from securities sold under repurchase agreements amounting to B/.12,420,850 with various maturities between September and October 2020 and an annual interest rate between 3.0% and 3.5% (2019: B/.8,564,257 with maturity on January 20, 2020 and an annual interest rate of 4.033%).

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**22. Borrowings**

<b>Obligations with financial institutions</b>	<b>2020</b>	<b>2019</b>
(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 4.13% and 5.67% (2019: between 4.39% and 7.57%).	5,217,781	5,552,049
(ii) Obligations with international organizations for use in working capital at medium term, with renewable maturities and an interest rate of 5.00% and 5.06%.	5,753,194	5,759,644
(iii) Obligations with foreign banks for use in working capital at medium term, with interest rates of 4.11% (2019: 6.20%).	2,253,296	3,004,650
Obligations with foreign banks for financing of foreign trade operations, with multiple maturities until April 2021 (2019: April 2019) and annual interest rates between 1.5861% to 1.6944% (2019: 2.90% and 2.92%).	14,993,503	14,811,469
Obligations with foreign banks for working capital, with multiple maturities until September 2020 and April 2021 (2019: September 2019) and an annual interest rate of 4% .	4,667,625	1,939,542
Obligations with government entities for short-term liquidity management with a maturity of less than 30 days and annual interest rates between 1.00% and 2.00%.	2,050,325	2,535,425
Obligations with governmental entities for short-term liquidity management and interest rates 2019: between 2.75%.	-	1,802,062
Bonds with maturities until 2099 and interest rates of 4.50 and 7.25%.	27,926	-
Obligations maturing in August 2020 and with an interest rate of 7.25%.	23,346	-
	<b>34,986,996</b>	<b>35,404,841</b>
<p>i. Global line of credit for a total amount of B/.6,050,000 of which B/.5,217,781 was being used. The guarantee of this credit facility is constituted by the general liability of Prival Bank (Costa Rica), S.A. and a specific guarantee contract on portfolio generated with its own resources, rated A in accordance with the rating criteria established by the Bank for this purpose, in a ratio of at least 1.2 in assets to 1.0 in liabilities.</p> <p>ii. A line of credit for an amount of B/.6,000,000 has been approved for the use of letters of credit, funding of foreign trade operations and working capital for the treasury. This line of credit is in use and has a balance of B/.5,753,194. The guarantee of this credit facility is fiduciary.</p>		

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- iii. As at June 30, 2020, there are medium-term obligations for working capital of B/.2,253,296 with a rate of 4.11%. The guarantee of this credit facility is fiduciary.
- iv. As at June 30, 2020, a credit line for an amount of B/.2,500,000 has been approved, with a total balance due of B/.0.00. The guarantee of this credit facility is fiduciary.
- v. A line of credit has been approved for an amount of B/.6,000,000 and 2,700 million colones for working capital with a guarantee of portfolio assignment. As at June 30, 2020, it had the use of B/.0.00.
- vi. Mortgage loan for B/.823,076 for the purchase of property No.38069 at a value of B/.1,525,462. This loan is secured by a trust on said property, and requires monthly payments of principal and interest in the amount of B/.10,128, at a rate of 6.25%, maturing in 2027.
- vii. As at June 30, 2020, there are obligations contracted through interbank market operations administered by the Central Bank of Costa Rica for the amount of B/.2,050,325. Such resources were used for short-term liquidity management. The guarantee of this credit facility is constituted by government debt securities.

As at June 30, 2020, the Bank has a balance payable for financial costs as a result of borrowings received for B/.113,523 (2019: B/.151,705).

The Bank has not defaulted on principal, interest or other contractual clauses in connection with its financing received.

### 23. Bond payable

As at June 30, the Bank holds bonds with Interclar, the Central Stock Exchange of Costa Rica, for an amount of B/.51,770,232 (2019: B/.43,793,190). The following is the balance of the bonds issued as at June 30:

Type	Interest	Maturity	2020	2019
Prival 01002	10.05%	2019	-	2,624,887
Prival 02014	5.98%	2019	-	1,934,940
Prival 02016	5.98%	2020	4,011,292	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	6,032,573	6,032,572
Prival 02022	5.98%	2020	-	4,020,592
Prival 02023	5.71%	2020	1,505,707	1,505,707
Prival 02024	6.25%	2021	2,410,000	2,410,000
Prival 02025	5.43%	2020	6,015,399	6,015,399
Prival 02026	5.00%	2022	2,008,889	-
Prival 01005	8.53%	2021	5,157,312	-
Prival 01006	8.53%	2021	6,863,423	-
Prival 01007	7.94%	2021	5,220,867	-
Prival 02029	6.47%	2021	3,513,839	-
Prival 02027	5.88%	2022	3,000,490	-
Prival 02028	6.76%	2022	6,030,441	-
Total			51,770,232	43,793,190

As at June 30, 2020, the Bank has a balance payable for financial costs as a result of bonds payable of B/.231,978 (2019: B/.323,500).

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#### **23.1 Amount**

The 2018 standardized bond issuance program corresponds to a multi-currency program to capture the necessary resources for working capital and to support the growth of the Bank's businesses in which the maximum amount to be placed in its series may not exceed the sum of B/.50,000,000 on a consolidated basis, of which B/.47,180,402 has been issued and B/.19,974,970 used, and divided into the following series:

- 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 02021 in dollars earns interest at an annual fixed interest rate equivalent to 6.30%, payable quarterly with maturity on November 2020.
- Prival series 02023 in dollars earns interest at an annual fixed interest rate equivalent to 5.71%, payable quarterly with maturity on December 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.

The 2019 standardized bond issuance program corresponds to a multi-currency program to capture resources needed for working capital and support the growth of the Bank's business, in which the maximum amount to be placed in its series may not exceed the amount of B/.100,000,000 on a consolidated basis, of which B/.31,638,254 has been issued and B/.31,795,262 used, and divided into the following series:

- The PRIVAL series 01005 in colones earn interest at an annual fixed interest rate equivalent to 8.53%, payable quarterly with maturity on March 2021.
- The PRIVAL series 01006 in colones earn interest at an annual fixed interest rate equivalent to 8.53%, payable quarterly with maturity on March 2021.
- The PRIVAL series 01007 in colones earn interest at an annual fixed interest rate equivalent to 7.94%, payable quarterly with maturity on October 2021.
- The PRIVAL series 02026 in colones earn interest at an annual fixed interest rate equivalent to 5.00%, payable quarterly with maturity on November 2022.
- The PRIVAL series 02027 in colones earn interest at an annual fixed interest rate equivalent to 5.88%, payable quarterly with maturity on March 2022.
- The PRIVAL series 02028 in colones earn interest at an annual fixed interest rate equivalent to 6.76%, payable quarterly with maturity on June 2022.
- The PRIVAL series 02029 in colones earn interest at an annual fixed interest rate equivalent to 6.47%, payable quarterly with maturity on December 2021.

#### **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.

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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.

As at June 30, 2020, notes payable are summarized below:

Type	Interest rate	Maturity	2020	2019
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
H Series	4.25%	23-jul-20	1,410,247	-
I Series	4.00%	04-sep-20	2,315,845	-
J Series	4.00%	28-sep-20	3,901,694	-
K Series	4.00%	15-nov-20	2,013,778	-
L Series	4.00%	04-feb-21	1,006,889	-
M Series	4.00%	13-feb-21	503,444	-
N Series	4.50%	04-abr-21	727,219	-
O Series	4.50%	30-abr-21	1,319,006	-
<b>Total</b>			<b>13,198,122</b>	<b>11,044,142</b>

The notes of Series, H, I, J, K, L, M, N and O are payable quarterly on January 30, April 30, July 30 and October 30. If this is not a business day, then payment will be made on the following first business day.

As at June 30, 2020, the Bank has a balance payable for financial costs resulting from notes payable of B/.92,122 (2019: B/.78,142).

**25. Reconciliation of obligations derived from financing activities**

The movement in obligations is detailed below for reconciliation purposes with the consolidated statement of cash flows and the balances do not include interest payable:

	Balance at the beginning of the year	Proceeds from liabilities and issuances	Payment of liabilities and redemption of issuances	Balance at the end of the year
<b>2020</b>				
Borrowings	35,253,136	51,685,104	(52,064,767)	34,873,473
Bonds payable	43,469,690	31,874,521	(23,805,956)	51,538,255
Securities sold under repurchase agreements	9,043,160	17,016,092	(13,644,683)	12,414,569
Notes payable	10,966,000	13,106,000	(10,966,000)	13,106,000
<b>Total</b>	<b>98,731,986</b>	<b>113,681,717</b>	<b>(100,481,406)</b>	<b>111,932,297</b>

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	Balance at the beginning of the year	Proceeds from liabilities and issuances	Payment of liabilities and redemption of issuances	Balance at the end of the year
<b>2019</b>				
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

**26. Insurance operations reserves**

	<b>2020</b>
Unearned premium	10,754,932
Mathematical reserve	1,946,501
Premium Insufficiency	364,842
For claims in process	12,799,420
	<u>25,865,695</u>

The movement of the unearned premium reserve is presented below:

	Unearned premium	Reinsurance participation	Net unearned premium
<b>2020</b>			
Unearned premium at the beginning of the year	-	-	-
Balance of acquired subsidiary	10,754,932	(7,828,534)	2,926,398
Unearned premium, net at the end of the year	10,754,932	(7,828,534)	2,926,398

Details of net incurred claims are shown below:

	Own	Participation in co-insurance	Reinsurance participation	Net variation in claims
<b>2020</b>				
Initial balance	-	-	-	-
Balance of acquired subsidiary	14,801,120	(2,001,701)	(9,170,273)	3,629,146
Ending balance	14,801,120	(2,001,701)	(9,170,273)	3,629,146

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**27. Other liabilities**

	<b>2020</b>	<b>2019</b>
Accounts payable	4,732,479	3,208,008
Cashier's check and certificate	6,547,235	5,024,584
Employee reserves	3,127,202	3,363,323
Insurance operations	1,973,003	-
Accounts payable agents, brokers and reinsurers	1,741,382	-
Taxes payable	1,410,107	831,002
Other reserves	1,373,069	188,846
Tax on premiums	797,334	-
Seniority premium	626,180	
Employer contributions payable	400,193	238,798
Deferred income	147,119	325,472
Insurance payable	251,467	79,301
Employee discounts	20,739	24,768
	<u>23,147,509</u>	<u>13,284,102</u>

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

**28. 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, dividend payments were declared at three Board Meetings detailed as follows: September 12, 2019, January 16, 2020 and April 24, 2020. Dividends were paid: December 27, 2019, January 30, 2020, and April 30, 2020, total dividends declared and paid amounted to B/.6,490,000.

Through meetings of the Board of Directors held during the period ended June 30, 2020, it was approved to reduce the additional paid-in capital by the amount of B/.800,000.

**29. Preferred shares**

As at June 30, 2020, there was a balance of 17,640 preferred shares for B/.1,764,000.

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**30. Interest income**

As at June 30, interest income is as follows:

	<b>2020</b>	<b>2019</b>
Investments	6,771,430	5,474,074
Loans	36,533,697	44,300,249
Deposits	<u>154,894</u>	<u>751,733</u>
Total	<u>43,460,021</u>	<u>50,526,056</u>

**31. Revenue from brokerage and structuring services**

Revenue from brokerage and structuring services for B/.16,366,314 (2019: B/.14,590,199) mainly relate to financial intermediation and investment structuring operations provided to its customers.

**32. Interest expenses**

	<b>2020</b>	<b>2019</b>
On customers' deposits	22,200,352	27,942,662
On liabilities and placements	<u>2,859,124</u>	<u>1,608,896</u>
Total	<u>25,059,476</u>	<u>29,551,558</u>

**33. Net commission income**

The breakdown of net commission income is as follows:

	<b>2020</b>	<b>2019</b>
Commission income from:		
Letters of credit and collection documents	3,081	-
Loans and credit cards	1,065,833	1,290,279
Bank services	1,164,694	656,612
Endorsements and guarantees	27,840	-
Other commissions	<u>592,890</u>	<u>830,802</u>
	<u>2,854,338</u>	<u>2,777,693</u>
Commission expenses for:		
Investments	3,010,601	2,593,810
Loans and credit cards	660,297	486,930
Bank services	1,841	152,417
Other commissions	<u>1,948,688</u>	<u>139,403</u>
	<u>5,621,427</u>	<u>3,372,560</u>
Net commission expense	<u>(2,767,089)</u>	<u>(594,867)</u>



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**34. Personal expenses**

At June 30, personnel expenses are as follows:

	<b>2020</b>	<b>2019</b>
Salaries and other wages	12,531,556	10,991,520
Employee benefits	1,854,400	1,509,940
Others	574,436	1,206,910
	<hr/>	<hr/>
Total	14,960,392	13,708,370

**35. Other expenses**

At June 30, other expenses are as follows:

	<b>2020</b>	<b>2019</b>
Leases	2,121,949	2,539,158
Professional fees	3,324,889	2,971,819
Taxes and licenses	1,071,938	1,168,887
Travel and accommodations	224,744	416,614
Utilities	228,379	185,430
Subscriptions	137,724	74,492
Bank fees	385,618	377,294
Marketing and public relations	206,142	333,505
Repairs and maintenance	494,091	290,514
Communications	303,259	279,426
Surveillance and security	121,824	136,987
Insurance	139,780	124,790
Donations and contributions	25,206	179,910
Others	3,304,891	1,513,535
	<hr/>	<hr/>
Total	12,090,434	10,592,361

**36. 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/.1,555,208,987 (2019: B/.1,420,034,081).

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The following presents the managed portfolio by type of contract:

	<b>2020</b>	<b>2019</b>
Investment trusts	4,500,000	4,501,527
Guarantee trusts	<u>1,550,708,987</u>	<u>1,415,532,554</u>
Total	<u>1,555,208,987</u>	<u>1,420,034,081</u>

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/.3,009,209,948 (2019: B/.3,044,220,809). Considering the nature of these services, Management believes there is no risk to the Bank.

### **37. 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:

	<b>2020</b>	<b>2019</b>
Endorsements and guarantees	3,809,267	7,224,125
Unused credit lines granted	3,008,334	11,084,275
Promissory notes	<u>3,423,975</u>	<u>13,707,252</u>
	10,241,576	32,015,652
Less: Provision for expected credit losses	<u>(155,665)</u>	<u>(151,619)</u>
	<u>10,085,911</u>	<u>31,864,033</u>

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.

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

<b>2020</b>	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>Off-balance sheet operations</b>				
Endorsements and guarantees	3,809,267	-	-	3,809,267
Promissory notes	3,423,975	-	-	3,423,975
Credit lines	1,262,018	1,746,316	-	3,008,334
Total	8,495,260	1,746,316	-	10,241,576
<b>2019</b>	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>Off-balance sheet operations</b>				
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

**38. Lease**

The Bank adopted a new lease accounting standard in July 2019. The Bank maintains leases with offices and branches. Most branch office leases are executed for terms of 2 to 5 years and generally contain options to extend from 1 to 5 years. None of the Bank's lease payments depend on a rate or index that may change after the start date, other than the annual % increase and the passage of time.

The Bank's lease liability was B/.2,493,554 as at June 30, 2020. This liability is based on the present value of the remaining minimum lease payments using a discount rate that is determined based on the interest rate of the Bank's increase in debt. The right-of-use asset was B/.2,454,680 as at June 30, 2020. This asset includes right-of-use assets that equal the lease liability, net of prepaid rentals and deferred rentals that existed upon adoption of the new lease standard.

The weighted average of the lessee's incremental borrowing rate applied to the lease liabilities as at July 1, 2019 was between 5% and 8%.

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The movement of right-of-use assets by type at June 30, 2020 is presented below:

**Cost:**

Balance as at June 30, 2019	-
Increases	3,301,588
Balance at end of the year	<u>3,301,588</u>

**Accumulated depreciaton and amortization:**

Balance at the beginning of the year	-
Expenses of the year	846,908
Balance at end of the year	<u>846,908</u>

<b>Net balance</b>	<u>2,454,680</u>
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The Bank has made several policy choices regarding lease assets and liabilities. The Bank chose to use the practical transition resource package, which includes not re-evaluating previous conclusions about lease identification, lease classification, and initial direct costs.

Leases with terms of twelve months or less and leases for which the underlying asset is of low value are not capitalized as part of the lease assets or liabilities and are charged to expenses as incurred. In addition, the Bank has elected not to separate non-lease components from lease components. Consequently, each separate lease component and the non-lease components associated with that lease component will be accounted for as a single lease component for purposes of classification, recognition and measurement of the lease.

The future maturities of the Bank's operating lease liabilities at June 30, 2020 are as follows:

2021	939,772
2022	865,962
2023	486,446
2024	303,810
2025	<u>148,235</u>
<b>Total</b>	<u>2,744,225</u>

The following table shows the impact on the Bank's profit or loss for the year ended June 30, 2020:

Increase in depreciation expenses	846,908
Increase in interest expenses	148,567
Decrease in operating expenses	<u>(942,602)</u>
Net decrease in taxable income	<u>52,873</u>

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**Lease – under IAS 17**

The minimum lease commitments under the leases at June 30, 2019 are as follows:

	<b>2019</b>
Less than one year	960,793
Between one and five years	<u>1,001,167</u>
Total	<u>1,961,960</u>

**39. Income tax expense**

**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:

	<b>2020</b>	<b>2019</b>
Current income tax	2,236,998	1,422,143
Deferred income tax from temporary differences	<u>(850,484)</u>	<u>205,673</u>
Total income tax	<u>1,386,514</u>	<u>1,627,816</u>

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.

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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, the income tax of the subsidiaries using the traditional tax calculation is presented below:

	2020	2019
Profit before income tax	31,258,069	9,727,323
Less: foreign, exempt and non-taxable income, net	(25,992,156)	(13,249,588)
Plus: non-deductible costs and expenses	2,229,375	10,939,595
Less: Regulatory reserve	(431,582)	-
Less: Tax Benefit from carry-forward loss	(403,379)	-
Net taxable income	6,660,327	7,417,330
Income tax	2,236,997	1,422,143

The effective average rate of the estimated income tax for the year ended June 30 is 20% (2019: 15%).

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

	2020			2019		
	Asset	Liability	Net	Asset	Liability	Net
Allowance for loan portfolio impairment	1,238,347	(479,348)	758,999	398,733	(281,327)	117,406
Estimation of foreclosed assets	-	(41,666)	(41,666)	-	(227,307)	(227,307)
Recognition of commissions pending deferral of credit and contingency portfolio	35,047	-	35,047	32,721	-	32,721
Adjustments to fixed assets at historical exchange rate	19,389	(2,982)	16,407	68,635	-	68,635
Deferred from equity account investments	385,199	(7,414)	377,785	228,922	(58,350)	170,572
Asset revaluation	-	(122,577)	(122,577)	-	(128,079)	(128,079)
Recognition of suspended interests	-	-	-	-	(18,446)	(18,446)
Recognition of credit card interests	-	-	-	-	(560)	(560)
	1,677,982	(653,987)	1,023,995	729,011	(714,069)	14,942

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Below is a detail of the movement of deferred income tax:

	2020	2019
Balance at the beginning of the year	14,942	(75,934)
Balance of acquired subsidiary		
<i>Included in equity</i>		
Effects of unrealized gains/losses from investment valuation	204,231	(74,732)
<i>Included in profit or loss</i>		
Estimation of foreclosed assets	185,641	(56,774)
Effect of loan loss reserve	641,594	247,797
Effect of reserve for foreclosed assets for sale		
Effect of adjustments to fixed assets	(43,745)	23,540
Effect of recognition of interests	19,006	17,479
Effect of differences in credit and contingency portfolio	2,326	(66,434)
<b>Balance at the end of the year</b>	<b>1,023,995</b>	<b>14,942</b>

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.

#### 40. Business combination

##### 40.1 Subsidiaries acquired

Name of entity	Main activity	Acquisition date	Proportion of acquired shares	Consideration transferred
Acerta Holding, Inc.	Insurer	September 9, 2019	50.13%	1,847,449
Santa María Park, S.A.	Construction	March 31, 2020	100%	6,141,276

- On September 9, 2019, the Bank increased its shareholding in Acerta Holding, S. A. becoming the majority shareholder with 50.13% of the shares.

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**40.2 Assets and liabilities recognised at the acquisition date**

The net assets acquired in the business combination of Acerta Holding, Inc. are detailed below:

**Assets**

Cash and cash equivalents	11,618,889
Financial assets at fair value and amortized cost and investments in other entities	5,584,374
Premiums receivable	29,719,477
Property and equipment	1,454,699
Intangible assets	745,651
Other assets	9,674,431

<b>Total assets</b>	<b>58,797,521</b>
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**Liabilities**

Technical reserves	22,583,434
Accounts payable - reinsurance	2,332,853
Financing	194,458
Premium taxes payable	731,543
Commissions payable - agents and brokers	1,627,348
Other liabilities	4,113,438

<b>Total liabilities</b>	<b>31,583,074</b>
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Total net assets	27,214,447
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- On March 31, 2020, the Bank increased its shareholding in Santa María Park, S. A., making it the majority shareholder with 100% of the shares.

**40.3 Assets and liabilities recognised at the acquisition date**

The net assets acquired in the business combination of Santa María Park, S. A., are detailed below:

**Assets**

Cash and cash equivalents	634
Furniture, equipment and improvements, net	20,585,409
Other assets	859,297

<b>Total assets</b>	<b>21,445,340</b>
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**Liabilities**

Other liabilities	12,708,464
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<b>Total liabilities</b>	<b>12,708,464</b>
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Total net assets	8,736,876
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The initial recognition for the acquisition has only been determined on a provisional basis at the end of the reporting period. For tax purposes, the tax values of the assets are required to be readjusted based on market values. At the date of completion of these consolidated financial statements, the necessary market valuations and other calculations have not been completed and therefore these have been provisionally determined based on the best estimate.

**40.4 Goodwill from acquisition**

As at June 30, goodwill generated from the business acquisition of Acerta Holding, Inc. is detailed below:

	<b>Acerta Holding, Inc.</b>
Consideration transferred	1,847,449
Non-controlling interest	6,786,773
Investment in previously held associate	5,952,654
Sub-total	<u>14,586,876</u>
Less: fair value of net assets acquired	<u>13,022,366</u>
Goodwill	<u>1,564,510</u>

A goodwill of B/.1,564,510 was originated in the acquisition of the operations of Acerta Holding, Inc. because the cost of the combination included a control premium. Additionally, the consideration paid for the combination included in effect amounts in relation to the benefits of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The recognized goodwill is not deductible for tax purposes.

**41. Operating segment**

The composition of the business segments is described as follows:

<b>2020</b>	<b>Banking and financial activities</b>	<b>Insurance</b>	<b>Real estate</b>	<b>Eliminations</b>	<b>Consolidated</b>
Interest and commission income	63,428,399	-	-	747,725	62,680,674
Interest expenses, commissions and provisions	(35,165,844)	-	-	-	(35,165,844)
Other income, net	4,275,695	6,506,336	-	-	10,782,031
Other expenses	(23,008,640)	(4,042,150)	(37)	-	(27,050,827)
Depreciation and amortization expenses	(2,881,162)	(332,791)	-	-	(3,213,953)
Profit before income tax	6,648,448	2,131,395	(37)	747,725	8,032,081
Income tax	(1,128,922)	(257,592)	-	-	(1,386,514)
<b>Net profit</b>	<u>5,519,526</u>	<u>1,873,803</u>	<u>(37)</u>	<u>747,725</u>	<u>6,645,567</u>
Total assets	<u>799,139,771</u>	<u>62,145,280</u>	<u>21,677,380</u>	<u>38,237,975</u>	<u>844,724,456</u>
Total liabilities	<u>702,854,090</u>	<u>32,827,421</u>	<u>19,071,817</u>	<u>18,589,462</u>	<u>736,163,866</u>

Until the year ended June 30, 2019, the Bank maintained a single segment of banking and financial activities.

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#### **42. Main applicable laws and regulations**

##### **42.1 *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.

##### **42.2 *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.

##### **42.3 *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.

##### **42.4 *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.

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#### **42.5 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.

#### **42.6 Insurance and reinsurance law**

Insurance and reinsurance operations are regulated by the Superintendency of Insurance and Reinsurance of Panama through Insurance Law No. 12 of April 3, 2012.

#### **42.7 Liquidity ratio**

The percentage of liquidity ratio reported by the Bank to the regulator, under the parameters of Agreement 4-2008, was 49.29% (2019: 48.51%).

#### **42.8 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 14.20% (2019: 13.45%) 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.

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

	2020	2019
<b>Primary capital (Tier 1)</b>		
Common shares	25,000,000	25,000,000
Excess paid-in capital	30,940,000	31,740,000
Retained earnings	29,150,074	30,908,845
Regulatory reserve - dynamic	5,928,605	9,944,392
Preferred shares	1,764,000	-
Minority interest	10,662,131	-
Goodwill	(13,284,741)	(7,935,579)
Deferred tax asset	(1,023,994)	(14,941)
Interest in insurance entities	-	(12,148,953)
Intangible assets	(3,658,692)	(2,901,181)
Other items of comprehensive income	(2,112,166)	387,719
<b>Total</b>	<b>83,365,217</b>	<b>74,980,302</b>
<b>Total regulatory capital</b>	<b>83,365,217</b>	<b>74,980,302</b>
<b>Risk-weighted assets</b>	<b>587,180,683</b>	<b>557,642,697</b>
<b>Capital ratios</b>		
Minimum adequacy percentage	8%	8%
Total regulatory capital expressed as a percentage of risk-weighted assets	14.20%	13.45%

	Minimum required	2020	Minimum required	2019
<b>Capital ratios</b>				
Adequacy percentage - Total capital	8.00%	14.20%	8.00%	13.43%
Adequacy percentage - Primary capital	6.00%	13.19%	6.00%	11.65%
Adequacy percentage - Ordinary primary capital	4.50%	12.89%	4.50%	15.78%

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/.25,972,430 (2019: B/.22,354,369) and the solvency ratio was 705.80% (2019: 2,153.74%). The liquidity ratio was 7334.48% (2019: 13,097.78%).

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/.58.63% (2019: B/.50.61%).

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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/.71.21% (2019: B/.51.99%).

#### **42.9 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.

#### **42.10 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 of Panama differs in some aspects from the accounting treatment in accordance with the International Financial Reporting Standards (IFRS), specifically IFRS 9 and IFRS 5. The Superintendency of Banks of Panama requires that general license banks apply these prudential regulations.

##### **42.10.1 Loan and loan reserves**

###### **42.10.1.1 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.

Agreement 2-2020, which modifies Agreement 4-2013, came into force on March 16, 2020, which creates a new type of credit, called "modified loans". The amendments to the conditions originally agreed for these credits will not be considered as a restructuring of credits as provided in Agreement No. 4-2013.

These credits will have the following characteristics:

1. The new terms and conditions must meet financial viability criteria, taking into account the debtor's payment capacity and the Bank's credit policies.
2. They will be subject to special monitoring by the Bank.
3. Loans that are in the category of modified loans and do not comply with the new terms and conditions must be recognized as a restructured loan.

The Bank will have until December 31, 2020 to reevaluate the credits of those debtors whose cash flow and payment capacity have been affected by the COVID-19 situation and who at the original moment of their modification presented a delay of up to 90 days.

Likewise, the Bank may make amendments to those credits that have not been previously modified, whose cash flow and payment capacity have been affected by the COVID-19 situation and that do not present a delay of more than 90 days.

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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.

<b>Loan category</b>	<b>Weight</b>
Special mention	20%
Subnormal	50%
Doubtful	80%
Uncollectible	100%

On September 11, 2020, the Superintendency of Banks of Panama issued Agreement No.9-2020, which amends Agreement No.2-2020 by means of which additional, exceptional and temporary measures are established to comply with the provisions contained in Agreement No.4-2013 on credit risk. This agreement is effective as of September 21, 2020. Agreement No. 9-2020 includes a new risk category called "modified special mention" for the determination of the provisions that will be applied to the modified loans. Loans classified within this category will comprise the entire loan portfolio that has been modified as a result of the economic crisis caused by the COVID-19 pandemic.

To cover credit risk, the Banks must constitute provisions on the modified loans classified in the "Modified Special Mention", making sure of complying with the International Financial Reporting Standards (IFRSs) and the prudential standards established. For such effects, the Banks will constitute a provision equivalent to the greater value between the IFRS provision of the modified special mention portfolio and a generic provision equivalent to three percent (3%) of the gross balance of the modified loan portfolio including uncollected accumulated interest and capitalized expenses. Those modified loans guaranteed with pledged deposits in the same bank up to the guaranteed amount could be excluded from this calculation. For this, the following scenarios will be considered:

1. In cases where the IFRS provision is equal to or greater than the generic provision of 3% established in the Agreement, the Bank will account for the corresponding IFRS provision in the results of the year.
2. In cases where the IFRS provision is lower than the generic provision of 3% established in the Agreement, the Bank will account for said IFRS provision in results and the difference shall be recorded in profit or loss or in a regulatory reserve in equity, taking into consideration the following aspects:
  - a. When the IFRS provision is equal to or greater than 1.5%, the Bank will account for said IFRS provision in the statement of profit or loss. Likewise, the difference to complete the 3% of the generic provision established in the Agreement will be recorded in a regulatory reserve in the equity.
  - b. When the IFRS provision is less than 1.5%, the Bank will ensure that this percentage is completed and recorded in the statement of profit or loss. Likewise, the difference to complete the 3% of the generic provision established in the Agreement will be recorded in a regulatory reserve in the equity.

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The Bank opted to apply Agreement No. 9-2020 in advance of the June 30, 2020 closing date.

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:

<b>2020</b>	<b>Normal</b>	<b>Modified special mention</b>	<b>Special mention</b>	<b>Subnormal</b>	<b>Doubtful</b>	<b>Uncollectible</b>	<b>Total</b>
Corporate loans	216,418,692	91,904,482	27,253,184	18,038,092	352,029	1,664,454	355,630,933
Consumer loans	53,958,656	24,672,919	1,631,985	1,445,156	361,945	1,802,375	83,873,036
<b>Total</b>	<b>270,377,348</b>	<b>116,577,401</b>	<b>28,885,169</b>	<b>19,483,248</b>	<b>713,974</b>	<b>3,466,829</b>	<b>439,503,969</b>
<b>Specific reserve</b>	<b>1,010</b>	<b>1,615,185</b>	<b>1,779,671</b>	<b>4,674,724</b>	<b>60,393</b>	<b>1,485,295</b>	<b>9,616,278</b>
<b>2019</b>	<b>Normal</b>	<b>Modified special mention</b>	<b>Special mention</b>	<b>Subnormal</b>	<b>Doubtful</b>	<b>Uncollectible</b>	<b>Total</b>
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
	<b>498,339,308</b>	<b>-</b>	<b>42,145,196</b>	<b>1,402,286</b>	<b>927,306</b>	<b>3,186,051</b>	<b>546,000,147</b>
<b>Specific reserve</b>	<b>-</b>	<b>-</b>	<b>2,531,789</b>	<b>18,378</b>	<b>243,739</b>	<b>1,847,840</b>	<b>4,641,746</b>

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 overdue 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.

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**Modified Special Mention Loan Category**

In accordance with the requirements of Article 4-E of Agreement No. 9-2020 of September 11, 2020, which amends Agreement No. 2-2020 of March 16, 2020, the following is a detail of the special mention modified loan portfolio and its respective provisions and regulatory reserves as at June 30, 2020, classified according to the three-stage model of IFRS 9:

	Stage 1	Stage 2	Stage 3	Total
Modified Special Mention Loans				
Modified loans				
Consumer	23,614,457	-	-	23,614,457
Corporate	56,514,804	33,090,610	-	89,605,414
(-) Modified loans secured by deposits pledged at the same bank up to the guaranteed amount	(6,482,834)	-	-	(6,482,834)
(+) Accrued interest receivable	1,937,073	805,274	-	2,742,347
Total portfolio subject to provisions of Agreement No. 9-2020	75,583,501	33,895,884	-	109,479,385
<b>Provisions</b>				
IFRS 9 Allowance	480,594	1,110,394	-	1,590,988
Generic provision (1.5% complement)				-
Regulatory reserve (3% complement)				1,590,988
Total provisions and reserves				3,181,976

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

	2020				2019			
	Current	Delinquent	Overdue	Total	Current	Delinquent	Overdue	Total
Corporate loans	352,796,703	1,168,445	1,665,785	355,630,933	469,809,229	522,852	1,968,853	472,300,934
Consumer loans	80,542,022	418,402	2,912,612	83,873,036	71,532,713	847,946	1,318,554	73,699,213
Total	433,338,725	1,586,847	4,578,397	439,503,969	541,341,942	1,370,798	3,287,407	546,000,147

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/.3,251,911 (2019: B/.1,044,621). Total unrecognized interest on income from loans is of B/.142,175 (2019: B/.47,033).

**42.10.1.2 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.



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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/.5,928,606 (2019: B/.9,944,392).

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:

	2020	2019
<b>Component 1</b>		
Times Alpha coefficient (1.50%)	2,608,786	3,275,826
<b>Component 2</b>		
Quarterly variation times Beta coefficient (5.00%)	-	1,156
<b>Component 3</b>		
Positive quarterly variation for specific reserves	3,875,096	103,727
Total dynamic reserve by components	<u>(1,266,310)</u>	<u>3,173,255</u>
Total dynamic reserve corresponding to 2.00% of the risk-weighted assets within the normal risk category	<u>3,039,778</u>	<u>5,564,259</u>

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

	2020	2019
<b>Component 1</b>		
Times Alpha coefficient (1.50%)	1,948,668	2,202,960
<b>Component 2</b>		
Quarterly variation times Beta coefficient (5.00%)	4,626	37,263
<b>Component 3</b>		
Positive quarterly variation for specific reserves	115,087	(787,195)
Total dynamic reserve by components	<u>1,838,207</u>	<u>3,027,418</u>
Total dynamic reserve corresponding to 2.25% of the risk-weighted assets within the normal risk category	<u>2,888,828</u>	<u>4,380,133</u>
Total dynamic reserve	<u>5,928,606</u>	<u>9,944,392</u>

Agreement No. 2-2020, which modifies Agreement No. 4-2013, establishes as an exceptional and temporary measure that banking entities may use up to 80% of the dynamic provision for the constitution of specific provisions. In cases where the Bank requires to use more than 80% of the amount of the dynamic provisioning it must obtain prior authorization from the Superintendency of Banks.

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42.10.2 Technical and legal reserves

42.10.2.1 Technical reserves

**Reserves for catastrophic risks, contingencies and forecast for statistical deviations**

Law No.12 of April 3, 2012, in its Article No. 299 establishes that as of the date of its entry into force, the reserve for statistical deviations and the reserve for catastrophic risks, previously established in liabilities, will be transferred as equity reserves. Such calculation was reaffirmed in Agreement 4 of June 4, 2014 and Agreement 5 of June 18, 2014. In its Article No. 208, it establishes that the insurance company must constitute a reserve for statistical deviations and a reserve for catastrophic risks and/or contingencies. These reserves are calculated on the basis of an amount not less than 1%, based on the net premium retained for all branches and their use may only be authorized by the Superintendency of Insurance and Reinsurance of Panama.

42.10.2.2 Regulatory reserves

The legal insurance reserve is established in accordance with the regulations of Article No. 213 of Law No. 12 of April 3, 2012, which establishes the following:

The reserve is established based on 20% of the annual profit before income tax, until a fund of B/.2,000,000 is constituted; after this amount is constituted, 10% of the annual profit before income tax will be allocated until reaching 50% of the paid-in capital.

**42.11 Provisions for country risk**

These provisions are those generated on the measurement of country risk exposure related to all operations of placements, loans and repurchase 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.

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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:

<u>Classification category</u>	<u>International rating</u>
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:

2020	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Total
Loans	4,617,714	56,698	520,379	37,733,665	-	5,041,064	47,969,520
Irrevocable contingencies	-	-	-	-	-	-	-
<b>Total</b>	<b>4,617,714</b>	<b>56,698</b>	<b>520,379</b>	<b>37,733,665</b>	<b>-</b>	<b>5,041,064</b>	<b>47,969,520</b>
Reserve for country risk	-	-	-	492,171	-	-	492,171

**42.12 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.

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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.

**42.13 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, issued by the Superintendency of Banks as shown below:

2020	Normal	Special mention	Subnormal	Doubtful	Uncollectible	Total
Endorsements and guarantees	3,809,267	-	-	-	-	3,809,267
Unused credit lines granted	1,746,316	1,262,018	-	-	-	3,008,334
Promissory notes	3,423,975	-	-	-	-	3,423,975
Total	8,979,558	1,262,018	-	-	-	10,241,576
Required reserve based on the estimated net loss	-	-	-	-	-	-
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	-	-	-	-	-	-

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.

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**43. Subsequent events**

The Bank has evaluated events after June 30, 2020, to assess the need for possible recognition or disclosure in the accompanying consolidated financial statements. Such events were evaluated up to October 17, 2020, the date on which these consolidated financial statements were available for issuance.

- The COVID-19 pandemic has created economic and financial disruptions that have negatively affected, and are likely to continue to adversely affect the Bank's business, financial condition, liquidity and results of operations. The extent to which the COVID-19 pandemic will continue to adversely affect the Bank will depend on future developments, which are highly uncertain and cannot be foreseen, including the scope and duration of the pandemic, the direct and indirect impact of the pandemic on our clients and counterparties, as well as on other market participants, and actions taken by government authorities (both domestic and foreign) and other third parties in response to the pandemic.

The effects known to Management and which can be reasonably estimated have been recognized in the consolidated financial statements as at June 30, 2020. Based on the best available evidence at the balance sheet date, Management has performed the impact analyses and adjusted these consolidated financial statements accordingly. Based on the foregoing, the most significant impact resulting from COVID-19 is in the provision for expected losses as disclosed in Note 4.2 to the consolidated financial statements. The Bank's Management will continue to monitor and modify operational and financial strategies to mitigate potential risks that could affect its business in the short, medium and long term.

The Bank has policies and procedures for Business Continuity, which establish the mechanisms to operate in contingency situations, ensuring uninterrupted continuity of operations and services for its customers.

- The Board of Directors of Prival Bank authorized the Issuance of a Revolving Program of Commercial Negotiable Securities (the "VCNs") on May 14, 2020 for a nominal value of up to fifty million balboas (B/.50,000,000) approved by the Superintendency of Securities Market through Resolution No. SMV No. 310 - 20 of July 13, 2020.

**44. Approval of the consolidated financial statement**

The consolidated financial statements of Prival Bank, S.A. and subsidiaries for the year ended June 30, 2020, were authorized by the General Management and approved by the Board of Directors for their issuance on October 17, 2020.

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Consolidating information on the statement of financial position  
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	Total consolidated	Disposals		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.	Acerta Holdings, S. A. and Subsidiaries	Santa María Park, S. A.	Grupo Prival Costa Rica, S.A.
		Debit	Credit										
<b>Assets</b>													
Cash and cash equivalents	145,584,799	-	24,597,293	170,182,092	97,869,314	22,467,905	78,826	341,260	46,206	3,559	8,930,043	597	40,444,382
Securities purchased under resale agreements	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value				-	-	-	-	-	-	-	-	-	-
through profit or loss	10,475,957	-	-	10,475,957	3,978,423	-	-	-	-	-	-	-	6,497,534
Financial assets at fair value through other comprehensive income	138,615,846	-	17,702,751	156,318,597	107,842,000	615,881	-	260,711	-	10,204,089	6,984,426	-	30,411,490
Loans	432,612,115	-	20,571,789	453,183,904	296,960,547	-	1,019,779	-	-	-	-	-	155,203,578
Investment in associates	125,000	-	78,749,677	78,874,677	78,699,677	175,000	-	-	-	-	-	-	-
Furniture, equipment and improvements	29,019,582	-	1,540,392	30,559,974	6,605,729	-	-	-	-	-	247,621	20,799,447	2,907,177
Intangible assets and goodwill	16,943,433	1,564,510	-	15,378,923	756,176	3,411,269	-	-	-	-	4,542,325	-	6,669,153
Deferred income tax	1,237,933	-	-	1,237,933	1,236,554	-	1,379	-	-	-	-	-	-
Foreclosed assets for sale, net	8,945,654	-	-	8,945,654	1,965,000	-	-	-	-	-	-	-	6,980,654
Investment properties	4,995,276	-	-	4,995,276	-	-	-	-	-	-	4,995,276	-	-
Right of use	2,454,680	-	-	2,454,680	1,286,181	-	-	-	-	-	733,735	-	434,764
Other assets	53,714,181	1,782,491	792,725	52,724,415	7,880,429	3,634,219	44	289,520	-	-	35,711,854	877,336	4,331,013
<b>Total assets</b>	<b>844,724,456</b>	<b>3,347,001</b>	<b>143,954,627</b>	<b>985,332,082</b>	<b>605,080,030</b>	<b>30,304,274</b>	<b>1,100,028</b>	<b>891,491</b>	<b>46,206</b>	<b>10,207,648</b>	<b>62,145,280</b>	<b>21,677,380</b>	<b>253,879,745</b>
<b>Liabilities and equity</b>													
<b>Liabilities</b>													
Customer deposits	554,291,298	24,597,293	-	578,888,591	464,271,916	-	-	-	-	-	-	-	114,616,675
Interbank deposits	17,533,836	4,900,000	-	22,433,836	22,433,836	-	-	-	-	-	-	-	-
Securities sold under repurchase agreements	12,507,021	-	-	12,507,021	12,420,850	-	-	-	-	-	-	-	86,171
Borrowings received	34,986,996	20,571,789	-	55,558,785	19,661,128	-	965,705	-	-	-	27,926	5,687,268	29,216,758
Bonds payable	51,770,232	-	-	51,770,232	-	-	-	-	-	-	-	-	51,770,232
Notes payable	13,198,122	-	-	13,198,122	13,198,122	-	-	-	-	-	-	-	-
Lease liabilities	2,493,554	-	-	2,493,554	1,299,624	-	-	-	-	-	736,826	-	457,104
Reserve for commitments and contingencies	155,665	-	-	155,665	108,857	-	-	-	-	-	-	-	46,808
Deferred income tax	213,938	-	-	213,938	-	-	-	-	-	-	-	-	213,938
Insurance operations reserve	25,865,695	-	-	25,865,695	-	-	-	-	-	-	25,865,695	-	-
Other liabilities	23,147,509	12,626,386	-	35,773,895	9,885,619	229,815	4,335	157,274	-	-	6,196,974	13,384,549	5,915,329
<b>Total liabilities</b>	<b>736,163,866</b>	<b>62,695,468</b>	<b>-</b>	<b>798,859,334</b>	<b>543,279,952</b>	<b>229,815</b>	<b>970,040</b>	<b>157,274</b>	<b>-</b>	<b>-</b>	<b>32,827,421</b>	<b>19,071,817</b>	<b>202,323,015</b>
<b>Equity</b>													
Common shares	25,000,000	71,330,520	-	96,330,520	25,000,000	5,300,000	100,000	150,000	100,000	7,896,535	10,181,051	10,000	47,592,934
Preferred shares	1,764,000	9,453,000	-	11,217,000	-	-	-	-	-	-	11,217,000	-	-
Treasury shares	-	-	270,000	(270,000)	-	-	-	-	-	-	(270,000)	-	-
Additional paid-in capital	30,940,000	100,000	-	31,040,000	30,940,000	-	-	-	-	-	-	-	100,000
Legal reserve	13,156,552	779,039	-	13,935,591	-	-	26,488	-	-	-	944,619	-	5,365,646
Change through other comprehensive income	(2,112,166)	117,845	-	(1,994,321)	(1,147,410)	(16,166)	-	9,026	-	-	(15,950)	-	(823,821)
Retained earnings	29,150,073	8,214,474	11,812,720	25,551,827	(591,350)	24,790,625	3,500	575,191	-	53,794	(3,400,992)	2,595,563	(678,029)
<b>Total controlling equity</b>	<b>97,898,459</b>	<b>89,994,878</b>	<b>12,082,720</b>	<b>175,810,617</b>	<b>61,800,078</b>	<b>30,074,459</b>	<b>129,988</b>	<b>734,217</b>	<b>46,206</b>	<b>10,207,648</b>	<b>18,655,728</b>	<b>2,605,563</b>	<b>51,556,730</b>
Non-controlling interest	10,662,131	-	-	10,662,131	-	-	-	-	-	-	10,662,131	-	-
<b>Total liabilities and equity</b>	<b>844,724,456</b>	<b>152,690,346</b>	<b>12,082,720</b>	<b>985,332,082</b>	<b>605,080,030</b>	<b>30,304,274</b>	<b>1,100,028</b>	<b>891,491</b>	<b>46,206</b>	<b>10,207,648</b>	<b>62,145,280</b>	<b>21,677,380</b>	<b>253,879,745</b>

**Consolidating information on the statement of profit or loss and other comprehensive income**  
**for the year ended June 30, 2020**  
 (In balboas)

	Total consolidated	Disposals		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.	Acerta Holdings, S. A. and Subsidiaries	Santa María Park, S. A.	Grupo Prival Costa Rica, S.A.
		Debit	Credit										
Interest income	43,460,021	1,449,499	-	44,909,520	26,882,927	21,633	71,140	7,542	-	-	-	-	17,926,278
Interest expenses	(25,059,476)	-	701,774	(25,761,250)	(13,916,595)	-	(38,884)	-	-	-	-	-	(11,805,771)
Net financial income	18,400,545	1,449,499	701,774	19,148,270	12,966,332	21,633	32,256	7,542	-	-	-	-	6,120,507
Commission income	2,854,338	-	-	2,854,338	1,261,489	67,902	7,500	-	61,551	-	-	-	1,455,896
Brokerage and structuring services	16,366,314	180,415	-	16,546,729	1,402,390	8,399,602	-	347,716	-	-	-	-	6,397,021
Commission expenses	(5,621,427)	-	180,415	(5,801,842)	(906,211)	(1,521,592)	-	-	-	-	-	-	(3,374,039)
Net gain on commissions, brokerage and structuring services	13,599,225	180,415	180,415	13,599,225	1,757,668	6,945,912	7,500	347,716	61,551	-	-	-	4,478,878
Realized loss in financial assets at FVTPL, net	791,629	-	-	791,629	791,629	-	-	-	-	-	-	-	-
Unrealized gain in financial assets at FVTPL, net	(1,018,851)	-	-	(1,018,851)	(1,018,851)	-	-	-	-	-	-	-	-
Realized gain in financial assets at FVTOCI, net	395,767	-	-	395,767	(14,020)	-	-	-	-	-	-	-	409,787
Income from ordinary activities	32,168,315	1,629,914	882,189	32,916,040	14,482,758	6,967,545	39,756	355,258	61,551	-	-	-	11,009,172
Insurance income	5,878,257	-	-	5,878,257	-	-	-	-	-	-	5,878,257	-	-
Other income	4,735,229	2,640,000	2,679,748	4,695,481	2,836,543	1,958	-	8,288	-	-	628,079	-	1,220,613
Allowance for expected credit losses	(4,309,258)	-	-	(4,309,258)	(3,770,337)	-	(5,162)	-	-	-	-	-	(533,759)
Provision for expected credit losses of financial assets at FVTOCI	(175,683)	-	-	(175,683)	-	-	-	-	-	-	-	-	(175,683)
Salaries and employee benefits	(14,960,392)	-	-	(14,960,392)	(8,693,503)	-	-	-	-	-	(1,874,556)	-	(4,392,333)
Depreciation and amortization	(3,213,953)	-	-	(3,213,953)	(1,876,608)	(142,473)	-	-	-	-	(332,791)	-	(862,081)
Others	(12,090,434)	-	2,640,000	(14,730,434)	(5,488,691)	(2,920,005)	(17,490)	(284,396)	(61,345)	(12,596)	(2,167,594)	(37)	(3,778,280)
Profit before income tax	8,032,081	4,269,914	6,201,937	6,100,058	(2,509,838)	3,907,025	17,104	79,150	206	(12,596)	2,131,395	(37)	2,487,649
Income tax	(1,386,514)	-	-	(1,386,514)	724,537	(650,448)	(4,277)	(19,298)	-	-	(257,592)	-	(1,179,436)
Net profit	6,645,567	4,269,914	6,201,937	4,713,544	(1,785,301)	3,256,577	12,827	59,852	206	(12,596)	1,873,803	(37)	1,308,213
Profit of the year attributable to:													
Controlling owners	5,894,718	4,269,914	6,201,937	3,962,695	(1,785,301)	3,256,577	12,827	59,852	206	(12,596)	1,122,954	(37)	1,308,213
Non-controlling interest	750,849	-	-	750,849	-	-	-	-	-	-	750,849	-	-
Profit for the year	6,645,567	4,269,914	6,201,937	4,713,544	(1,785,301)	3,256,577	12,827	59,852	206	(12,596)	1,873,803	(37)	1,308,213

See the accompanying Independent Auditors' Report.

Consolidating information on the statement of changes in equity  
for the year ended June 30, 2020  
(In balboas)

	Total consolidated	Disposals Debit	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.	Acerta Holdings, S. A. and Subsidiaries	Santa María Park, S. A.	Grupo Prival Costa Rica, S.A.
<b>Common shares</b>													
Balance at the beginning of the year	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
Net adjustment of the year	-	2,030,500	-	2,030,500	-	-	-	-	-	2,030,500	-	-	-
Balance of acquired subsidiary	-	10,191,051	-	10,191,051	-	-	-	-	-	-	10,181,051	10,000	-
Balance at the end of the year	25,000,000	71,330,520	-	96,330,520	25,000,000	5,300,000	100,000	150,000	100,000	7,896,535	10,181,051	10,000	47,592,934
<b>Preferred shares</b>													
Balance at the beginning of the year	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance of acquired subsidiary	1,764,000	9,453,000	-	11,217,000	-	-	-	-	-	-	11,217,000	-	-
Balance at the end of the year	1,764,000	9,453,000	-	11,217,000	-	-	-	-	-	-	11,217,000	-	-
<b>Treasury shares</b>													
Balance at the beginning of the year	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance of acquired subsidiary	-	-	270,000	- 270,000	-	-	-	-	-	-	270,000	-	-
Balance at the end of the year	-	-	270,000	- 270,000	-	-	-	-	-	-	270,000	-	-
<b>Additional paid-in capital</b>													
Balance at the beginning of the year	31,740,000	100,000	-	31,840,000	31,740,000	-	-	-	-	-	-	-	100,000
Net change of the year	(800,000)	-	-	(800,000)	(800,000)	-	-	-	-	-	-	-	-
Balance at the end of the year	30,940,000	100,000	-	31,040,000	30,940,000	-	-	-	-	-	-	-	100,000
<b>Legal reserve</b>													
Balance at the beginning of the year	12,826,130	-	-	12,826,130	7,109,914	51,287	31,161	-	-	-	-	-	5,633,768
Country risk reserve of the year	1,156,215	-	-	1,156,215	492,171	-	-	-	-	-	-	-	664,044
Balance of acquired subsidiary	-	779,039	-	779,039	-	-	-	-	-	-	779,039	-	-
Reserve 9-2020- Amended credits	1,658,242	-	-	1,658,242	1,658,242	-	-	-	-	-	-	-	-
Net changes for the year	(2,484,035)	-	-	(2,484,035)	(1,661,489)	(51,287)	(4,673)	-	-	-	165,580	-	(932,166)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at the end of the year	13,156,552	779,039	-	13,935,591	7,598,838	-	26,488	-	-	-	944,619	-	5,365,646
<b>Other accumulated comprehensive income</b>													
Balance at the beginning of the year	387,719	70,466	-	458,185	677,682	60,490	-	4,324	-	-	-	-	(284,311)
Balance of acquired subsidiary	-	881	-	881	-	-	-	-	-	-	881	-	-
Net change in securities	(2,499,885)	46,498	-	(2,453,387)	(1,825,092)	(76,656)	-	4,702	-	-	(16,831)	-	(539,510)
Balance at the end of the year	(2,112,166)	117,845	-	(1,994,321)	(1,147,410)	(16,166)	-	9,026	-	-	(15,950)	-	(823,821)
<b>Retained earnings</b>													
Balance at the beginning of the year	30,908,845	1,264,812	1,064,210	31,109,447	10,002,544	21,567,226	(13,846)	518,709	(54,000)	2,323,709	-	-	(3,234,895)
Balance of acquired subsidiary	(84,147)	-	4,546,573	(4,630,720)	-	-	-	-	-	-	(4,546,572)	(84,148)	-
Controlling profit of the year	5,894,718	4,269,914	6,201,937	3,962,695	(1,785,301)	3,256,577	12,827	59,852	206	(12,596)	1,122,954	(37)	1,308,213
Complementary tax	33,414	-	-	33,414	121,403	(84,465)	(154)	(3,370)	-	-	-	-	-
Declared dividends	(6,490,000)	-	-	(6,490,000)	(6,490,000)	-	-	-	-	-	-	-	-
Income tax	(18,750)	-	-	(18,750)	(18,750)	-	-	-	-	-	-	-	-
Country risk reserve movement	111,657	-	-	111,657	(204,830)	-	-	-	-	-	-	-	316,487
Reversals of prior years	(2,219,663)	-	-	(2,219,663)	(2,219,663)	-	-	-	-	-	-	-	-
Surplus from revaluation of properties	-	2,679,748	-	2,679,748	-	-	-	-	-	-	-	2,679,748	-
IFRS adoption	189,448	-	-	189,448	-	-	-	-	-	-	189,448	-	-
Reserve 9-2020- Changes in credits	(1,658,242)	-	-	(1,658,242)	(1,658,242)	-	-	-	-	-	-	-	-
Regulatory reserve	2,482,793	-	-	2,482,793	1,661,489	51,287	4,673	-	-	-	(166,822)	-	932,166
Balance at the end of the year	29,150,073	8,214,474	11,812,720	25,551,827	(591,350)	24,790,625	3,500	575,191	(53,794)	2,311,113	(3,400,992)	2,595,563	(678,029)
<b>Total equity</b>													
Balance at the beginning of the year	100,862,694	60,544,247	1,064,210	160,342,731	74,530,140	26,979,003	117,315	673,033	46,000	8,189,744	-	-	49,807,496
Profit of the year	5,894,718	4,269,914	6,201,937	3,962,695	(1,785,301)	3,256,577	12,827	59,852	206	(12,596)	1,122,954	(37)	1,308,213
Profit from non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance of acquired subsidiary	(84,147)	10,970,971	4,546,573	6,340,251	-	-	-	-	-	-	6,414,399	(74,148)	-
Excess paid-in capital	(800,000)	-	-	(800,000)	(800,000)	-	-	-	-	-	-	-	-
Change in common shares	-	2,030,500	-	2,030,500	-	-	-	-	-	2,030,500	-	-	-
Change in preferred shares	1,764,000	9,453,000	-	11,217,000	-	-	-	-	-	-	11,217,000	-	-
Change in treasury shares	-	-	270,000	(270,000)	-	-	-	-	-	-	(270,000)	-	-
Insurance regulatory reserve	(1,242)	-	-	(1,242)	-	-	-	-	-	-	(1,242)	-	-
Complementary tax	33,414	-	-	33,414	121,403	(84,465)	(154)	(3,370)	-	-	-	-	-
Non-controlling interest	10,662,131	-	-	10,662,131	-	-	-	-	-	-	10,662,131	-	-
Income tax	(18,750)	-	-	(18,750)	(18,750)	-	-	-	-	-	-	-	-
Change in country risk reserve	1,267,872	-	-	1,267,872	287,341	-	-	-	-	-	-	-	980,531
Declared dividends	(6,490,000)	-	-	(6,490,000)	(6,490,000)	-	-	-	-	-	-	-	-
Reversal of prior years	(2,219,663)	-	-	(2,219,663)	(2,219,663)	-	-	-	-	-	-	-	-
Surplus from revaluation of properties	-	2,679,748	-	2,679,748	-	-	-	-	-	-	-	2,679,748	-
IFRS adoption	189,448	-	-	189,448	-	-	-	-	-	-	189,448	-	-
Other comprehensive income	(2,499,885)	46,498	-	(2,453,387)	(1,825,092)	(76,656)	-	4,702	-	-	(16,831)	-	(539,510)
Balance at the end of the year	108,560,590	89,994,878	12,082,720	186,472,748	61,800,078	30,074,459	129,988	734,217	46,206	10,207,648	29,317,859	2,605,563	51,556,730