

OFFERING MEMORANDUM

**U.S.\$400,000,000
GLOBAL BANK CORPORATION**



5.125% Senior Notes due 2019

We are offering U.S.\$400,000,000 aggregate principal amount of our 5.125% Senior Notes due 2019 (the "Notes"). The Notes will mature on October 30, 2019. Interest on the Notes will accrue at a rate of 5.125% per annum and will be payable semi-annually in arrears on April 30 and October 30 of each year, commencing on April 30, 2015.

The Notes will be our senior unsecured obligations and (i) will rank at all times at least pari passu, without any preference among themselves, equally in right of payment with all of our other existing and future senior unsecured and unsubordinated indebtedness, if any, and (ii) will be effectively subordinated to all of our existing and future secured indebtedness to the extent of the value of, and only in relation to, the assets securing such indebtedness. For a more detailed description of the Notes, see "Description of the Notes" beginning on page 90.

We may, at our option, at any time prior to maturity, redeem any of the Notes, in whole or in part, at a redemption price based on a "make-whole" premium, plus any accrued and unpaid interest on the principal amount of the Notes to the date of redemption. In the event of certain changes in the applicable tax treatment relating to payments on the Notes, we may redeem the Notes in whole, but not in part, at a price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

We have applied to list the Notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market of such exchange.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 12 for a discussion of certain risks that you should consider in connection with an investment in the Notes.

Issue price Notes: 99.652%, plus accrued interest, if any, from October 31, 2014.

We have not registered the Notes under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or under any U.S. state securities laws or the securities laws of any other jurisdiction. The Notes may not be offered or sold within the United States or to any U.S. persons except (a) to qualified institutional buyers within the meaning of Rule 144A under the Securities Act ("Rule 144A"), in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A, and (b) outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act ("Regulation S"). This offering memorandum has been prepared on the basis that any offer of Notes in any Member State of the European Union that has implemented Directive 2003/71/EC (the "Prospectus Directive") will be made pursuant to an exemption in the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. This offering memorandum has not been approved by a competent authority within the meaning of the Prospectus Directive. For further details about eligible offerees and resale restrictions, see "*Transfer Restrictions*." This offering memorandum constitutes a prospectus for the purpose of Luxembourg law dated July 10, 2005 on prospectuses for securities, as amended.

We expect that delivery of the Notes will be made to investors in book-entry form through the facilities of The Depository Trust Company, or DTC, for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, and Clearstream Banking, *société anonyme*, or Clearstream, Luxembourg, on or about October 31, 2014.

Joint Bookrunners

Citigroup

Deutsche Bank Securities

Co-Manager

Commerzbank

The date of this offering memorandum is October 28, 2014.

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IMPORTANT NOTICES

You should assume that the information appearing in this offering memorandum is accurate as of the date on the front cover of this offering memorandum only. Our business, financial condition, results of operations and prospects may have changed since that date. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that the information herein is correct as of any date subsequent to the date on the cover of this offering memorandum.

We have prepared this offering memorandum for use solely in connection with the proposed offering of the Notes. This offering memorandum does not constitute an offer to any person other than the offeree to whom it has been delivered, or to the public in general, to subscribe for or otherwise acquire the Notes. No one is authorized to give information other than that contained in this offering memorandum and in the documents referred to in this offering memorandum and that are made available to the public. This offering memorandum may be used only for the purpose for which it has been published.

This offering memorandum is intended solely for the purpose of soliciting indications of interest in the Notes from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions relating to the terms of the Notes contained in the indenture entered into in connection with the issuance of the Notes as described herein and other transaction documents described herein. The market information in this offering memorandum has been obtained by us from publicly available sources deemed by us to be reliable. We accept responsibility for correctly extracting and reproducing such information. Notwithstanding any investigation that the initial purchasers may have conducted with respect to the information contained in this offering memorandum, the initial purchasers accept no liability in relation to the information contained in this offering memorandum or its distribution or with regard to any other information supplied by us or on our behalf.

This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this offering memorandum and must obtain any consent, approval or permission required for your purchase, offer or sale of the Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither we nor any of the initial purchasers will have any responsibility therefor.

The Notes offered through this offering memorandum are subject to restrictions on transferability and resale and may not be transferred or resold in the United States except as permitted under the Securities Act and applicable U.S. state securities laws pursuant to registration under, or exemption from, such laws. By purchasing the Notes, you will be deemed to have made certain acknowledgments, representations, restrictions and agreements as set forth under "*Transfer Restrictions*."

You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. In making an investment decision, prospective investors must rely on their examination of us and the terms of this offering, including the merits and risks involved. These Notes have not been approved or recommended by any United States federal or state securities commission or any other United States, Panamanian or other regulatory authority. Furthermore, the foregoing authorities have not passed upon or endorsed the merits of the offering or confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

Neither we, the initial purchasers nor any of our or their respective affiliates or representatives are making any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of any investment by such offeree or purchaser under any applicable law. Each prospective investor should consult with its own advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes.

The Luxembourg Stock Exchange takes no responsibility for the contents of this offering memorandum, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

NOTICE TO RESIDENTS OF NEW HAMPSHIRE

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE, THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSONS, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

Our Notes may not be offered or sold to any person in the United Kingdom, other than to persons whose ordinary activities involve them acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances that have not resulted, and will not result, in an offer to the public in the United Kingdom.

NOTICE REGARDING PANAMANIAN SECURITIES LAW

The Notes have not been and will not be registered with the *Superintendencia del Mercado de Valores de Panamá* (“SMV”), and, therefore, the Notes are not authorized for public offering in Panama and may not be offered, placed, distributed, commercialized and/or negotiated publicly in Panama. Documents relating to the offering of the Notes, as well as information contained therein, may not be offered publicly in Panama nor be used in connection with any public offering for subscription or sale of the Notes in Panama.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This offering memorandum has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area that has implemented the Prospectus Directive (each, a “Relevant Member State”) will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for us or the initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither we nor the initial purchasers have authorized, nor do we or they authorize, the making of any offer of Notes in circumstances in which an obligation arises for us

or the initial purchasers to publish or supplement a prospectus for such offer. The expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member States, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

AVAILABLE INFORMATION

For so long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser or subscriber of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser or subscriber the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

FORWARD-LOOKING STATEMENTS

This offering memorandum contains certain forward-looking statements within the meaning of Section 21E of the Exchange Act, as amended, and Section 27A of the Securities Act. These statements appear throughout this offering memorandum, principally in “*Summary*,” “*Management’s Discussion and Analysis of Financial Position and Results of Operations*” and “*Business*.” Such estimates and forward-looking statements are primarily based on current expectations and projections about future events and financial trends that affect, or may affect, our business, financial condition, results of operations and prospects.

There are many significant risks, uncertainties and assumptions that might cause our business, financial condition, results of operations and prospects to differ materially from those set out in our estimates and forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding our or our officers’ intent, belief or current expectations with respect to, among other things, the use of proceeds of the offering, our financing plans, trends affecting our business, the impact of competition, and future plans and strategies.

Forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms “believes,” “could,” “may,” “estimates,” “continues,” “potential,” “anticipates,” “intends,” “expects,” “will,” “should,” “seeks,” “projects” and “plans,” among others (including, in each case, their negative or other variations or comparable terminology). Forward-looking statements speak only as of the date they were made, and neither we nor the initial purchasers undertake to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this offering memorandum might not occur. Any such forward-looking statements are not guarantees of future performance. As a result, prospective investors should not make an investment decision based on the forward-looking statements contained in this offering memorandum.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a financial institution organized and existing under the laws of Panama. All of our directors and officers and certain other persons named in this offering memorandum reside outside the United States. The majority of our assets are located in Panama, and all or a significant portion of the assets of our directors and officers and certain other persons named in this offering memorandum are located in Panama. None of our directors or executive officers are domiciled in the U.S. As a result, it may not be possible for you to effect service of process within the United States upon such persons or to enforce against them or against us judgments obtained in U.S. courts or in other jurisdictions outside of Panama.

In the terms and conditions of the Notes, we will (1) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, the City of New York, will have jurisdiction to hear and determine any suit, action or proceeding and to settle any disputes that may arise out of or in connection with the Notes, and, for such purposes, we will submit to the jurisdiction of such courts, and (2) name an agent for service of process in the Borough of Manhattan, the City of New York. See “*Description of the Notes.*”

There is uncertainty as to the enforceability in Panama, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the U.S. federal securities laws. See “*Risk Factors—Risks Related to the Notes—The ability of investors to enforce civil liabilities under U.S. securities laws may be limited.*” Notwithstanding this fact, we understand that, subject to specific requirements described below, a final conclusive judgment for payment of a determined sum of money rendered by any court in the United States in respect of the Notes would be recognized in Panamanian courts (to the extent that Panamanian courts may have jurisdiction), and such courts would enforce such judgment without any retrial or reexamination of the merits of the original action subject to the issuance of a *writ of exequator* by the Supreme Court of Justice of Panama. Currently, such ratification will be issued, provided that:

- such foreign court grants reciprocity to the enforcement of judgments of courts of Panama;
- the party against whom the judgment was rendered, or its agent, was personally served in such action within such foreign jurisdiction;
- the judgment arises out of a personal action against the defendant;
- the obligation in respect of which the judgment was rendered is lawful in Panama and does not contradict the public policy of Panama;
- the judgment is properly authenticated by diplomatic or consular officers of Panama or pursuant to the 1961 Hague Convention Abolishing the Requirement of Legalization of Foreign Public Documents; and
- a copy of the final judgment is translated into Spanish by a translator licensed in Panama.

Notwithstanding the foregoing, no assurance can be given that such ratification would be obtained, that the process described above could be conducted in a timely manner or that a Panamanian court would enforce a monetary judgment for violation of U.S. federal securities laws.

PRESENTATION OF FINANCIAL INFORMATION AND CERTAIN OTHER INFORMATION

Financial Statements

This offering memorandum includes our consolidated financial statements and related notes as of and for each of the fiscal years ended June 30, 2014, 2013 and 2012 (collectively, our “consolidated financial statements”). The source of the financial information as of June 30, 2013 included elsewhere in this offering memorandum are derived from the set of consolidated financial statements as of June 30, 2014 and 2013, included in pages F-2 through F-87 of this offering memorandum.

Accounting Principles

Our consolidated financial statements are prepared in conformity with International Financial Reporting Standards (“IFRS”) as adopted by the International Accounting Standards Board and modified, from time to time, by prudential regulations issued by the Superintendency of Banks of Panama (the “Superintendency of Banks”).

The financial information included in this offering memorandum has not been prepared in accordance with international accounting standards adopted pursuant to Article 3 of Regulation (EC) No. 1606/2002, and there may have been material differences in such financial information had Regulation (EC) No. 1606/2002 been applied to such financial information.

The most significant changes introduced by the prudential regulations issued by the Superintendency of Banks that establish a different treatment to International Financial Reporting Standards relate to the measurement of impairment for possible loan losses, investment securities and property acquired as compensation for outstanding claims (“foreclosed assets”). IAS 39 states that the reserve for possible loan losses and impairment of investment securities is established on the basis of losses incurred, while the regulations issued by the Superintendency of Banks requires the determination of the reserve and impairment based on expected losses. IFRS 5 states that foreclosed assets are recorded at the lower of carrying amount and fair value less costs to sell, while the Superintendency of Banks requires the creation of reserves in an equity account based on the number of years that the foreclosed asset has been held by the Bank.

In addition, pursuant to Accord 4-2013 of the Superintendency of Banks, we will be required to make additional specific reserves in the event that our loan loss reserves made in accordance with IFRS, as adopted by the International Accounting Standards Board and modified, from time to time, by the prudential regulations of the Superintendency of Banks, are lower than the specific loan loss reserve guidelines set forth in Accord 4-2013. We will also be required to establish dynamic reserves, calculated on the basis of the aggregate value of loans categorized as normal and adjusted quarterly based on (i) the increase (but not adjusted for any decrease) of such total aggregate value and (ii) quarterly variations in the specific loan loss reserves. The requirements of Accord 4-2013 will be effective on January 1, 2015 and will be applicable to us on June 30, 2014. We believe that if we were to apply these new rules as of June 30, 2014, our loan loss reserves would have been adequate.

The average balance information has been calculated as the sum of quarter-end balances of any such year and the quarter-end balance as of the quarter ended June 30 of the immediately preceding year divided by five. Nominal average interest rates have been calculated by dividing interest earned on assets or paid on liabilities by the corresponding average balances on such assets or liabilities. In addition, loan amounts are presented before deduction for loan losses.

Currencies

Our consolidated financial statements are expressed in Balboas (B/), the official monetary unit of Panama. The Balboa is freely exchangeable for the U.S. dollar on a one-to-one basis. Panama does not issue paper currency; instead, it uses the U.S. dollar as its legal currency. For ease of reference, all amounts discussed herein are expressed in U.S. dollars (U.S.\$), the lawful currency of the United States of America.

Rounding Adjustments

We have made rounding adjustments to some of the figures included in this offering memorandum. As a result, numerical figures shown as totals in some tables may not be arithmetic aggregations of the figures that precede them.

SUMMARY

This summary highlights information contained elsewhere in this offering memorandum. It does not contain all of the information that an investor should consider before making a decision to invest in the Notes. For further information on our business and this offering, this summary must be read together with the detailed information included in the other sections of this offering memorandum, in particular the information included in “Risk Factors,” “Management’s Discussion and Analysis of Financial Position and Results of Operations” and “Business” and the consolidated financial statements herein.

Overview

We are a corporation (*sociedad anónima*) incorporated pursuant to the laws of Panama. As of June 30, 2014, we were the second largest privately owned bank in Panama (excluding banks controlled by the Panamanian government and foreign banks) in terms of total assets, total loans and total deposits with U.S.\$4.5 billion in total assets, representing a 14.5% market share, U.S.\$3.2 billion in unpaid principal balance of total domestic loans, representing a 19.5% market share, and U.S.\$2.6 billion in total domestic customer deposits, representing a 12.4% market share, each according to information published by the Superintendency of Banks. As of June 30, 2014, our loan portfolio was split with 66.5% in the corporate sector and 33.5% in the consumer sector, and, as of such date, we were the third largest provider of commercial loans in Panama, with a 10.6% market share, and the fourth largest provider of consumer loans in Panama in terms of principal balance of total loans outstanding, which includes all retail loans other than mortgages, with a 7.0% market share (excluding banks controlled by the Panamanian government). As of June 30, 2014, we held a market share of 18.5% in agricultural loans in Panama. Within the consumer loan segment, we were also the third largest provider of auto loans among banks in Panama in terms of outstanding balance, with a 15.1% market share as of June 30, 2014.

For the fiscal years ended June 30, 2014, 2013 and 2012, our net income was U.S.\$65.9 million, U.S.\$71.5 million and U.S.\$50.4 million, respectively. As of June 30, 2014, our shareholders’ equity was U.S.\$369.1 million. Our annual return on average common shareholders’ equity for the fiscal year ended June 30, 2014 was 19.5%, and our annual return on average total assets for the year ended June 30, 2014 was 1.6%.

We serve our customers through a nationwide network of 32 branches, three loan centers, and a network of 110 ATMs and ten drive-through ATMs, the second largest points-of-service network of a privately owned bank in Panama (excluding banks controlled by the Panamanian government and foreign banks) as of June 30, 2014. We had over 137,650 active retail and corporate customers as of June 30, 2014.

We are part of the conglomerate controlled by G.B. Group Corporation. G.B. Group Corporation is a publicly traded company listed on the Panamanian Stock Exchange (*Bolsa de Valores de Panamá*). We control, among other operations, a factoring financial entity, Factor Global Inc.; an offshore bank, Global Bank Overseas Limited; a brokerage firm, Global Valores, S.A.; an insurance company, Aseguradora Global, S.A.; and a trust administration entity, Global Financial Funds Corporation. Each of these subsidiaries is consolidated in our consolidated financial statements. Through these entities, we offer a variety of products and services to both consumers and corporate clients, including traditional banking, as well as factoring, securities brokerage services, insurance and surety bond issuance services, real estate management, investment banking and financial consultation services.

Our Corporate Structure

We are a wholly owned subsidiary of G.B. Group Corporation. We own 100% of the issued and outstanding shares of the entities described below. These entities are not run independently from us, and most of their revenues are accounted for in our consolidated financial statements.

Factor Global Inc., a Panamanian corporation (*sociedad anónima*) that began operations in 1995, is engaged in the purchase of discounted bills issued by third parties.

Global Financial Funds Corporation, a Panamanian corporation (*sociedad anónima*) that began its

operations in 1995, is in charge of administering trusts created by our clients, including guarantee trusts for car loans and other general loans. Global Financial Funds Corporation also offers escrow services and structuring of estate planning and protection vehicles.

Global Capital Corporation, a Panamanian corporation (*sociedad anónima*) that began its operations in 1994, is mainly engaged in corporate financial business and financial advisory services.

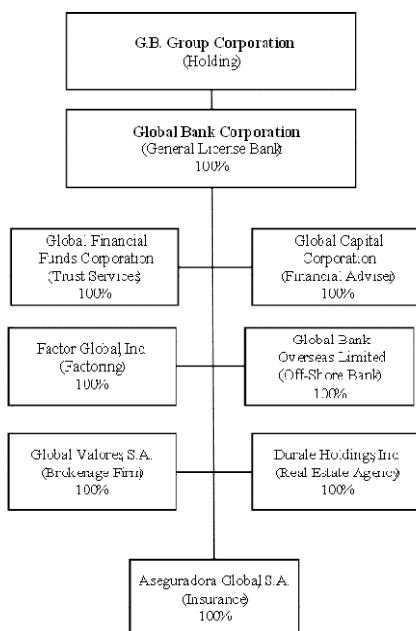
Global Valores, S.A., a Panamanian corporation (*sociedad anónima*) that began its operations in 2003, is engaged in the brokerage business through the Stock Exchange of Panama.

Global Bank Overseas Limited, a bank incorporated under the laws of Montserrat, British West Indies 2003, is engaged in the foreign banking business.

Aseguradora Global, S.A., a Panamanian corporation (*sociedad anónima*) incorporated in April 2003 and acquired by us in December 2004, is engaged in the subscription and issuance of insurance policies to third parties, particularly to such of our clients that have life, employment or fire insurance as required by us.

Durale Holdings Inc., a Panamanian corporation (*sociedad anónima*) incorporated in January 2006, is engaged in the real estate business and currently owns the properties where our branches are located.

The following chart illustrates the current organizational structure of G.B. Group Corporation:



Strengths

Strong Presence in the Panamanian Banking Industry

As of June 30, 2014, we were the second largest privately owned bank in Panama (excluding banks controlled by the Panamanian government and foreign banks) in terms of total assets, total loans and total deposits with U.S.\$4.5 billion in total assets, representing a 14.5% market share, U.S.\$3.2 billion in unpaid principal balance of total domestic loans, representing a 19.5% market share, and U.S.\$2.6 billion in total domestic customer deposits, representing a 12.4% market share, each according to information published by the Superintendency of Banks. Our strong presence in Panama allows us to service a wide spectrum of clients, maximize revenue and gain market share.

Prudent Credit Underwriting Policies

We follow a conservative credit underwriting process in our origination process for all loan products. Our credit department is responsible for approving or rejecting each loan application. The credit department assesses each loan application through our centrally controlled credit decision system. This assessment takes into account a variety of factors relating to the customer's financial circumstances obtained from the applicant at the time the loan application is submitted, as well as information obtained from credit checks done through the Credit Bureau of the Panamanian Credit Association (*Asociación Panameña de Crédito* (APC)), an independent credit reporting agency that provides detailed historical information of consumer credit activity in the Panamanian market for up to 24 months prior to the date of the loan application. Underwriters have five to ten years of banking experience, and underwriting managers have at least ten years of experience in this segment. Depending on the size of the loan, we require certain of our officers to be involved in the authorization of a loan so that loans exceeding certain thresholds may only be authorized by certain senior officers or by the Board of Directors.

Our prudent underwriting policies have allowed us to keep a low delinquency level on both our consumer and corporate loan portfolios. As of June 30, 2014, our past due loan portfolio represented 0.8% of our total outstanding loans.

Demonstrated Ability to Deliver Profitable Growth While Maintaining Asset Quality

We believe that our strong deposit base and diversified loan portfolio of consumer and corporate credit, combined with our universal business model that includes banking services to small, medium-sized and large companies and financial services to the agricultural sector, and consumer credit, including personal, automobile, credit card, retiree and mortgage loans, have allowed us to achieve strong revenue growth with relatively low default rates and a diversified client base. Our recent growth has been accompanied by increased levels of profitability. For the fiscal year ended June 30, 2014, our total interest and commission income grew by 11.0% to U.S.\$266.3 million. Our return on average common equity for the fiscal year ended June 30, 2014 was 19.5%, compared to 26.4% for the fiscal year ended June 30, 2013.

Convenient and Broad Retail Distribution Network

We have an extensive distribution network composed of 32 branches, three loan centers, and a network of 110 ATMs and ten drive-through ATMs (*autobancos*) as of June 30, 2014. Based on points of service, including ATMs and drive-through ATMs, our geographic coverage and service infrastructure is the second largest among privately owned banks in Panama (excluding banks controlled by the Panamanian government and foreign banks). In addition to this extensive distribution network, we provide online banking services in English and Spanish, mobile banking, call centers and kiosks, providing our customers with increased banking flexibility and accessibility.

Experienced Board of Directors and Management Team

We have attracted and retained professionals to our senior management and Board of Directors who are highly competent and experienced and committed to our interests and objectives. As of June 30, 2014, seven of the 11 members of the Board of Directors were also founding members, and nine of the 11 members of the Board of Directors are also shareholders holding 75.5% of the outstanding common stock of G.B. Group Corporation, our parent company. Our current senior officers have extensive experience in the financial markets and the Panamanian banking sector, with an average of ten years of experience and 119 years of combined experience.

Demonstrated Ability to Adapt to Changing Market Dynamics

We believe that we have the management experience, ability and platform to quickly adapt to different growth trends in the local financial markets. Throughout our 20-year history, we have shifted the weighting of our loans between the consumer and corporate sectors in order to adapt to different growth trends. For example, from 2001 through 2005, our loan portfolio was more than 50% weighted in the consumer sector. From 2006 to 2014,

management identified a sizable amount of foreign direct investment and infrastructure projects in Panama and shifted its strategy to become predominantly a commercial bank. As of June 30, 2014, 66.5% of our loan portfolio was in the corporate sector, and 33.5% was in the consumer sector.

Strategy

Expand the Consumer and Corporate Banking Activities and Customer Base

We are a full-service bank offering a variety of products and services to both consumer and corporate clients. Our primary objective is to continue to solidify our position as one of the largest closely held financial institutions in Panama. We plan to increase our market share across all business segments in the Panamanian market by expanding our current customer base and achieving economies of scale.

We plan to strengthen and improve our corporate and consumer banking divisions to increase market penetration and profitability per customer. In the corporate banking division, we intend to increase our loan volume by catering to medium-sized and large entities, in addition to strengthening our number one position in agriculture lending. We intend to further develop the highest growth areas in our corporate banking division, namely construction and infrastructure. Economies of scale will be achieved through the cross-selling of products, such as cash management, factoring, treasury products, foreign exchange and online banking, to our traditional credit customers.

In the consumer banking division, we intend to expand our consumer base by leveraging our branch network, continuing our leading market share in automobile loans, introducing additional credit card products, increasing personal loans and further strengthening our relationship with real estate developers to generate mortgages. Our management believes that the Panamanian financial system offers significant potential due to Panama's expected economic expansion, a continuation of the trend observed in the last three years. We also intend to increase the number of banking products held per customer by offering our existing customers additional products, such as automobile loans, home, auto and personal insurance, and credit and debit cards.

Pursue Cross-Selling Opportunities to Capitalize on the Customer Base

We intend to increase our market share and profitability by aggressively cross-selling our products and services. As of June 30, 2014, we had approximately 125,655 retail customers, 74.9% of whom used only one retail banking product and 25.1% of whom used at least two retail banking products. We believe that our existing customer base represents a significant opportunity to sell additional banking products and services and to thereby increase our penetration in the retail market and strengthen loyalty among our customers. We intend to capitalize on this opportunity by enhancing our marketing efforts to better tailor our products and related marketing strategies to existing customers and to cross-sell new products to such customers based on their needs. We will continue to invest in new information management tools to allow us to gain insights into the demographics and needs of our customer base, while continuing to provide all services throughout our distribution channels.

Expand the Retail Loan Portfolio in a Disciplined Manner

We believe that retail banking in Panama continues to have significant growth potential. We intend to continue to grow our retail loan portfolio in a sustainable and disciplined manner, with a strong capital base and a diverse range of deposits. We believe that the expected growth of the Panamanian economy will lead to growth in consumer and mortgage loans and that we are well positioned to capture this opportunity. Specifically, we are focused on the following key retail loan products: personal loans, automobile loans, residential mortgage loans and credit cards. For each of these products, we have developed strategic business plans, including targeted marketing campaigns and dedicated sales forces, and have trained qualified personnel to cross-sell these products and provide post-sale customer service. We also intend to capitalize on our distribution network to continue our cross-selling efforts of key products. In addition, we will continue to provide financing to real estate developers, which better positions us to market our mortgage loans to home buyers.

Continue to Expand and Develop the Distribution Network

We believe that bringing banking services closer to the homes and facilities of our existing clients and potential new customers is one key to our growth. We provide financial products and services mainly through our branch network, ATMs, drive-through ATMs (*autobancos*), online banking, mobile banking, kiosks and call centers. As of June 30, 2014, we served our client base through a network of 32 branches nationwide, three loan centers, and a network of 110 ATMs and ten drive-through ATMs. Through our branch network, clients conducted over 7.9 million transactions during the fiscal year ended June 30, 2014. Based on points of service, including ATMs and drive-through ATMs, our geographic coverage and service infrastructure is the second largest privately owned bank in Panama (excluding banks controlled by the Panamanian government and foreign banks). We intend to enhance customer convenience by opening additional branches and installing additional ATMs and point-of-sale terminals, as well as by expanding our electronic and mobile banking services.

Expand the Corporate Banking Business by Focusing on Higher Margin Products and Growth Industries

We believe that we have significant opportunities in the corporate banking sector as a result of current and anticipated growth in private sector investment in Panama. Within the corporate banking sector, we provide credit facilities and high-margin products and services, such as factoring and insurance, especially for small and medium-sized businesses. We also have a strategy to increase our investment banking business, especially in the areas of capital markets and M&A, which we expect will lead to increased lending to the corporate sector. In addition, we developed an expertise in industries in which we believe there is potential for high growth and profitability, such as agribusiness and real estate development. As a result, we are able to provide specialized advice to leading companies within those industries. We will continue to develop high-growth areas such as construction, infrastructure, cash management and factoring services and to increase penetration among small and medium-sized business in high-growth industries.

Continue to Improve Operating Efficiencies

We maintain a disciplined approach to reduce costs and generate efficiencies. We intend to continue to improve our operational efficiency through the development of new business plans, increased employee training, streamlining of the organizational structure of certain segments and divisions, and increased sales monitoring and responses. In particular, we plan to continue to invest in technology in order to enhance the application, documentation and monitoring of our lending operations, automate certain of our key operations, strengthen our distribution network and achieve greater efficiencies in all of our processes.

Focus on Superior Customer Service

We seek to strengthen our relationships with existing customers and attract new clients by focusing on superior customer service by providing alternative distribution channels such as online, call centers and telephone banking so that customers can conduct financial transactions 24 hours a day, seven days a week. We believe that superior customer service is instrumental to our growth in the retail banking sector and will continue to offer our customers personalized assistance to help them with their banking needs. We are committed to building a highly motivated team with the skills, capacity and dedication to provide superior customer service. To that end, we intend to continue to focus on attracting, training and retaining top talent and leveraging the expertise and experience of our management and employees to improve customer service.

Expand Our Factoring and Insurance Business by Capitalizing on Infrastructure Opportunities

The Panamanian government has put forward an aggressive infrastructure program to modernize and expand the country's infrastructure, including the construction of Panama's second metro line, the expansion of the Panama Canal, and the restructuring and construction of overpasses and additional traffic lanes throughout the main roads of Panama City. We believe that these infrastructure opportunities will allow us to strengthen our factoring business and our cross-selling of insurance products to our existing customers by meeting the needs and requirements of the contractors that will be working on these infrastructure projects.

History

In June 1994, we began our operations as a private bank under a general banking license granted by the National Banking Commission, predecessor of the Superintendence of Banks of Panama (*Superintendencia de Bancos*). During our first year of operation, we focused primarily on serving the corporate sector in Panama City and the Colon Free Trade Zone (*Zona Libre de Colón*). In 1999, we acquired 100% of the shares of Banco Confederado de América Latina (Colabanco). We began offering online banking services in October 2000.

In April 2001, we registered our first issuance of corporate notes in an amount of U.S.\$40 million with the National Securities Commission. This issuance was followed by our first issuance of preferred shares in 2002 for an amount of U.S.\$20 million, which was registered with the National Securities Commission. In January 2003, Global Valores, S.A., our wholly owned subsidiary, was authorized to operate as a brokerage firm, and, in August 2003, Global Bank Overseas Limited, our wholly owned subsidiary, commenced its operations.

In 2007, Aseguradora Global, S.A., our wholly owned subsidiary, obtained the authorization and license to offer life insurance and general lines of business by the Superintendence of Insurance and Reinsurance of Panama (*Superintendencia de Seguros y Reaseguros*).

In June 2009, we registered our first issuance of convertible subordinated notes in an amount of U.S.\$30 million with the National Securities Commission. This issuance was followed by our first issuance of non-cumulative subordinated notes, which was completed in 2010 for an amount of U.S.\$150 million and registered with the National Securities Commission. Later that year, we introduced mobile banking, which allowed our customers to perform certain financial transactions through their cellular phones, and we acquired part of the mortgage loan portfolio of Banco Citibank (Panama) S.A. totaling U.S.\$56.7 million.

In October 2012, we established a U.S.\$500 million covered bond program and issued U.S.\$200 million in covered bonds. This issuance was followed by another for U.S.\$100 million in October 2013. In June 2014, we completed our first Swiss franc notes transaction for an amount of CHF75 million.

Recent Developments

On September 25, 2014, we signed a binding purchase agreement to acquire 100% of the outstanding shares of Progreso-Administradora Nacional de Inversiones, Fondos de Jubilacion y Cesantias, S.A. (“Progreso”) for U.S.\$27.0 million. The transaction is expected to close upon receipt of regulatory approvals by the Superintendence of Banks and the Superintendence of Capital Markets. Progreso is one of two pension fund administrators in Panama with approximately U.S.\$603.0 million in assets under management. We expect to generate potential cross-selling opportunities from Progreso’s extensive data base of customers.

Corporate Information

Our principal executive offices are located at Global Bank Tower, Calle 50, Panama City, Panama. Our telephone number is (507) 206-2000. Global Bank is registered under entry number 40979-25-281810 with the commercial registry of Panama. Our main website is www.globalbank.pa.com. The information included on our website or that may be accessed through our website is not part of this offering memorandum and is not incorporated by reference herein or otherwise.

THE OFFERING

| | |
|--|---|
| Issuer | Global Bank Corporation |
| Securities Offered | U.S.\$400,000,000 aggregate principal amount of our 5.125% Senior Notes due 2019. |
| Issue Price..... | 99.652% of the principal amount, plus accrued interest, if any, from October 31, 2014. |
| Issue Date | October 31, 2014. |
| Maturity Date..... | The Notes will mature on October 30, 2019. |
| Interest | The Notes will accrue interest at a rate of 5.125% per annum. Interest will accrue from October 31, 2014. |
| Interest Payment Dates | Interest on the Notes will be payable semi-annually in arrears on April 30 and October 30 of each year, beginning on April 30, 2015. |
| Ranking..... | The Notes will be our senior unsecured obligations and (i) will rank at all times at least <i>pari passu</i> equally in right of payment with all of our other existing and future senior unsecured and unsubordinated indebtedness, if any, and (ii) will be effectively subordinated to all of our existing and future secured indebtedness to the extent of the value of, and only in relation to, the assets securing such indebtedness. |
| Additional Amounts | All payments in respect of the Notes will be made without any withholding or deduction for any taxes imposed or levied by or on behalf of Panama or any political subdivision thereof or any authority therein having power to tax, unless such withholding or deduction is required by law. In that event, we will pay such additional amounts as will result in receipt by the holders of Notes of such amounts as would have been received by them had no such withholding or deduction for taxes been required, subject to certain exceptions set forth under " <i>Description of the Notes—Additional Amounts</i> ." |
| Optional Redemption..... | We may, at our option, at any time prior to maturity, redeem any of the Notes, in whole or in part, at a redemption price based on a “make-whole” premium, plus any accrued and unpaid interest on the principal amount of the Notes to the date of redemption. See “ <i>Description of the Notes—Optional Redemption</i> .” |
| Optional Redemption Upon Tax Event | The Notes are redeemable at our option, in whole but not in part, at any time, at the principal amount thereof plus accrued and unpaid interest to but excluding the date of redemption and any additional amounts due thereon if certain changes in applicable tax laws occur. See “ <i>Description of the Notes—Optional Redemption Upon Tax Event</i> .” |

| | |
|--|--|
| Certain Covenants..... | <p>The indenture governing the Notes will contain covenants that, among other things:</p> <ul style="list-style-type: none"> • limit our ability to consolidate with or merge into, or to convey or transfer, in one transaction or series of transactions, all or substantially all our properties and assets to another person; • require us to maintain an office agent for service of process in the Borough of Manhattan, New York, New York; and • require us to furnish to the trustee certain supplementary and periodic information, documents and reports. <p>These covenants are subject to a number of important limitations and exceptions. See "<i>Description of the Notes—Covenants</i>."</p> |
| Events of Default | <p>For a discussion of certain events of default that will permit acceleration of the principal of the Notes, plus accrued interest, and any amounts due with respect to the Notes, see "<i>Description of the Notes—Events of Default</i>."</p> |
| Further Issues..... | <p>Subject to the covenants in the indenture governing the Notes, we may from time to time, without the consent of the holders of the Notes, issue further securities having the same terms and conditions as the Notes (except that the issue date, price, first interest payment and temporary securities law transfer restrictions may be different). Any further issue may be consolidated with, and form a single series with, the Notes sold in this offering.</p> |
| Use of Proceeds | <p>The net proceeds from the sale of the Notes will be approximately U.S.\$396,608,000, after deduction of certain expenses (including fees and commissions payable to the initial purchasers). We intend to use the net proceeds from this offering for general corporate purposes.</p> |
| Book-Entry, Delivery and Form and Denomination of the Notes..... | <p>The Notes will be issued only in book-entry form, in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof and will be represented by global Notes deposited with, or on behalf of, DTC and registered in the name of a nominee of DTC. Beneficial interest in the global Notes will be shown on, and transfers will be effected only through, records maintained by DTC for the accounts of its direct and indirect participants, including Euroclear and Clearstream. The global Notes will be exchangeable or transferable for certificated Notes only in limited circumstances. See "<i>Book-Entry, Delivery, and Form and Denomination of the Notes</i>."</p> |
| Transfer Restrictions..... | <p>The Notes have not been, and will not be, registered under the Securities Act. As a result, the Notes are subject to limitations on transferability and resale. This offering is being made in accordance with Rule 144A and Regulation S of the Securities Act. See "<i>Transfer Restrictions</i>" and "<i>Plan of Distribution</i>" for additional information.</p> |
| Listing and Trading | <p>We have applied to the Luxembourg Stock Exchange for the Notes to be admitted to listing on the Official List and to trading on the Euro MTF Market. We cannot assure you that this application will be accepted and that the Notes will be listed or remain so listed. The Notes are, however,</p> |

a new issue of securities, and there is no established trading market for the Notes. Accordingly, we cannot assure you that a trading market for the Notes will develop or, if one develops, that it will be maintained.

Governing Law The indenture and the Notes will be governed by, and construed in accordance with, the laws of the State of New York.

Trustee, Registrar, Transfer Agent and
Paying Agent Deutsche Bank Trust Company Americas.

Luxembourg Listing, Transfer and
Paying Agent Deutsche Bank Luxembourg S.A.

Risk Factors Investing in the Notes involves substantial risks and uncertainties. See “*Risk Factors*” and other information included in this offering memorandum for a discussion of factors you should carefully consider before deciding to purchase any Notes.

SUMMARY FINANCIAL INFORMATION

The following information is only a summary and should be read together with “*Management’s Discussion and Analysis of Financial Position and Results of Operations*” and our consolidated financial statements, together with the notes thereto, included elsewhere in this offering memorandum. The following summary of financial information as of June 30, 2014, 2013 and 2012 and for the fiscal years ended June 30, 2014, 2013 and 2012 has been derived from our consolidated financial statements, together with the notes thereto, included elsewhere in this offering memorandum, which have been prepared in accordance with IFRS as adopted by the International Accounting Standards Board and modified, from time to time, by prudential regulations issued by the Superintendency of Banks. The financial and operating data as of June 30, 2014 and 2013 and for the fiscal years ended June 30, 2014, 2013 and 2012 are not necessarily indicative of our future performance.

| | As of and for the years ended June 30, | | |
|--|--|--------------------|--------------------|
| | 2014 | 2013 | 2012 |
| | (U.S.\$ in thousands except percentages) | | |
| CONSOLIDATED STATEMENT OF PROFIT OR LOSS | | | |
| Interest and commissions income | 266,267.4 | 236,914.8 | 213,815.9 |
| Interest and commissions expense | 118,595.1 | 105,827.6 | 90,099.6 |
| Interest and commissions income before allowance for loan losses | 147,672.2 | 131,087.1 | 123,716.3 |
| Interest and commissions income after allowance for loan losses | 139,672.2 | 122,587.1 | 108,141.3 |
| Allowance for loan losses | 8,000.0 | 8,499.9 | 15,575.0 |
| Total other income, net | 15,027.1 | 29,789.3 | 10,510.1 |
| Total income, net | 154,699.3 | 152,376.5 | 118,651.0 |
| General and administrative expenses | 80,172.5 | 71,119.7 | 63,823.2 |
| Profits before income tax | 74,526.8 | 81,256.8 | 54,828.1 |
| Income tax, net | 8,556.3 | 9,720.2 | 4,476.5 |
| Net income | 65,970.5 | 71,536.6 | 50,351.6 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | | | |
| Cash, cash items and due from banks ⁽¹⁾ | 424,597.2 | 488,340.1 | 374,527.9 |
| Securities purchased under resale agreement | 3,000.0 | 5,497.7 | 1,044.5 |
| Securities available-for-sale | 405,724.7 | 271,593.5 | 134,721.1 |
| Securities held to maturity | — | — | 264,310.7 |
| Loan portfolio, net | 3,477,923.7 | 2,902,767.7 | 2,475,362.2 |
| Property, furniture, equipment and improvements, net | 55,893.7 | 48,736.3 | 41,621.4 |
| Other assets ⁽²⁾ | 112,487.9 | 94,160.5 | 90,435.2 |
| Total assets | 4,479,627.2 | 3,811,095.8 | 3,382,023.1 |
| Clients’ and interbank deposits | 2,874,327.5 | 2,634,887.6 | 2,295,375.5 |
| Securities sold under repurchase agreements | 635.8 | — | 29,915.8 |
| Borrowed funds | 452,263.5 | 290,113.3 | 436,774.5 |
| Commercial paper | 59,871.0 | 59,074.0 | 85,340.0 |
| Corporate bonds payable | 516,040.6 | 325,103.1 | 121,342.0 |
| Convertible bonds | 10,000.0 | 10,000.0 | 10,000.0 |
| Subordinated bonds | 89,522.6 | 90,020.0 | 90,020.0 |
| Other liabilities | 107,837.9 | 94,466.3 | 78,300.8 |
| Total liabilities | 4,110,499.0 | 3,503,664.3 | 3,147,068.5 |
| Shareholder’s equity ⁽³⁾ | 369,128.2 | 307,431.5 | 234,954.6 |
| Total liabilities and shareholder’s equity | 4,479,627.2 | 3,811,095.8 | 3,382,023.1 |
| SELECTED FINANCIAL RATIOS | | | |
| Profitability | | | |
| Return on Assets (ROA) | 1.6% | 2.0% | 1.6% |
| Return on Equity (ROE) | 19.5% | 26.3% | 23.7% |
| Asset Quality | | | |
| Past due loans/total loan portfolio | 0.8% | 0.8% | 0.8% |
| Provisions for loan losses/total loan portfolio | 1.3% | 1.4% | 1.5% |
| Liquidity | | | |
| Regulatory Liquid Assets/ Deposits ⁽⁴⁾ | 39.6% | 49.1% | 48.0% |
| Capital Adequacy | | | |
| Equity to assets ratio | 8.24% | 7.6% | 6.8% |
| Capital ratio | 14.1% | 14.8% | 15.0% |

- (1) Includes foreign and domestic demand and time deposits.
- (2) Includes interest receivable on time deposits, loans and investments; clients' obligations under acceptances; goodwill (net); deferred income tax, and other assets.
- (3) Includes common shares, preferred shares, capital reserve, net changes on securities available-for-sale, net changes in hedging instruments and retained earnings.
- (4) Regulatory liquid assets are determined based on guidelines established by the Superintendency of Banks. Among others, regulatory liquid assets include cash, demand deposits, time deposits with remaining maturities of less than 186 days, notes issued by the Panamanian government with maturities of one year or less, and investment-grade foreign debt securities.

RISK FACTORS

Investing in the Notes involves a high degree of risk. Prospective investors should carefully consider the risks discussed below, as well as the other information included in this offering memorandum, before deciding to purchase any Notes. If any of the following risks should occur, our business, financial condition and results of operations could be adversely affected. As a result, the trading price of the Notes could fall, and investors could lose all or part of their investment in the Notes. The risks discussed below are not the only risks that we face, but are the risks that we currently consider to be material. There might be additional risks that we currently consider immaterial or of which we are currently unaware, and any of these risks could have similar effects to those set forth below.

Risks Relating to the Bank

Failure of our credit risk management system to accurately assess credit risks could materially and adversely affect our business operations and prospects.

As a commercial bank, one of the principal types of risks inherent in our business is credit risk. An important part of our credit risk management system is to employ an internal credit rating system to assess the particular risk profile of a client. As this process involves detailed analysis of the client or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a client or credit risk, which may result in the Bank's exposure to higher credit risks than indicated by our risk rating system. As a result, failure to effectively implement, consistently follow or continuously refine our credit risk management system may result in a higher risk exposure for us, which could materially and adversely affect our business.

We face interest rate risk that is caused by the mismatch in maturities of interest-earning assets and interest-bearing liabilities.

If not properly managed, a mismatch of interest-earning assets and interest-bearing liabilities can reduce net interest income as interest rates fluctuate. We face interest rate risk because interest-bearing liabilities generally re-price at a different pace than interest-earning assets. Our exposure to instruments whose values vary with the level or volatility of interest rates contributes to our interest rate risk. Failure to adequately manage eventual mismatches may reduce our net interest income during periods of fluctuating interest rates.

Our businesses rely heavily on data collection, management and processing, and information systems, the failure of which could have a material adverse effect on us, including the effectiveness of the risk management and internal control systems.

Our main businesses are highly dependent on the ability to timely collect and process a large amount of financial and other information across numerous and diverse markets, at a time when transaction processes have become increasingly complex with increasing volume. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our businesses and to our ability to compete effectively. A partial or complete failure of any of these primary systems could materially and adversely affect our decision-making process, our risk management and internal control systems, as well as our ability to respond on a timely basis to changing market conditions. If we cannot maintain an effective data collection, management and processing system, our business may be materially and adversely affected. We are also dependent on information systems to operate our website, process transactions, respond to customer inquiries on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures (including failure to update systems), viruses, computer "hackers" or other causes. Our ability to remain competitive depends in part on our ability to upgrade our information technology on a timely and cost-effective basis. We continually make investments and improvements in our information technology infrastructure in order to remain competitive. In the future, our business may not be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of our information technology infrastructure. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have a material adverse effect on our business.

The loss of senior management, or our inability to attract, hire and maintain additional personnel, could have a material adverse effect on us.

Our ability to maintain our competitive position and implement our growth strategy depends on our senior management. We cannot assure you that we will be successful in attracting, hiring and maintaining qualified personnel to be part of our senior management. The loss of some of the members of our senior management, or our inability to attract, hire and maintain additional personnel, could have a material adverse effect on us.

Risks Relating to Us and the Panamanian Banking Industry

Panama has no central bank or an official lender of last resort, which affects our creditworthiness.

Panama's economy is dollarized and, accordingly, the Panamanian government has no ability to print paper currency. In addition, there is no government provided prime interest rate, lender of last resort or deposit insurance in Panama. Accordingly, while Panamanian banks are regulated by the Superintendency of Banks, banks located in Panama may be less creditworthy than banks in countries with a central bank that could provide liquidity. This means that Panamanian banks, including us, could face a more difficult recovery from the type of liquidity problems that have recently affected banks in the United States and Europe.

Our ability to make required payments on the Notes may be adversely affected if Panama were to impose exchange controls.

Since shortly after its independence from Colombia in 1903, Panama has used the U.S. dollar as legal tender and sole paper currency, using the Balboa only as coinage and as a unit of account with an exchange rate set at parity with the U.S. dollar. Inflation was 5.7% and 4.0% in 2012 and 2013, respectively, and 4.7% for the six months ending June 30, 2014. Given the dependence on the U.S. dollar and the U.S. economy, there can be no assurance that appreciation or depreciation of the U.S. dollar against other currencies or the existence of sustained higher levels of inflation in the U.S. economy (and the resultant effect on the value of the U.S. dollar) or increases or decreases in interest rates generally in the United States will not adversely affect the Panamanian monetary system or, indirectly, us. In addition, there are currently no exchange controls or other restrictions imposed by Panamanian law on payments in U.S. dollars by us, and capital moves freely in and out of the country, without local currency risk. However, in the event that foreign exchange or payment restrictions are imposed by the Panamanian government, our liability to repay the Notes could be adversely affected.

We are dependent on the political, legal and economic climate of Panama.

The Panamanian economy is small and relatively undiversified, largely focused on the service sector, which represents approximately 57.0% of the country's GDP as of June 30, 2014. A significant portion of Panama's economic activity is linked directly or indirectly to the Panama Canal, shipping and port activities, a large free trade zone, an international banking center and tourism services. Due to the small size and limited focus of the Panamanian economy, adverse developments in Panama could have a more pronounced effect than would be the case if the developments occurred within the context of a larger, more diversified economy. Investing in an emerging market country, such as Panama, carries economic risks. These risks include many different factors that may affect Panama's economic results, including the following:

- interest rates in the United States and financial markets outside Panama;
- changes in economic or tax policies;
- the imposition of trade barriers;
- general economic and business conditions in Panama and the global economy;
- the ability of Panama to effect key economic reforms;

- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy; and
- the decisions of international financial institutions regarding the terms of their financial assistance to Panama.

Any adverse effect on the Panamanian economy could adversely affect our business, thereby impairing the ability to meet our payment obligations under the Notes.

Risks associated with the banking industry in Panama.

Although recent indicators show that there has been positive growth in the Panamanian banking sector, there is no guarantee that such growth will continue with respect to total loans, assets and deposits, nor that, if such growth continues, it will be of the size and nature of the growth seen in recent periods. In addition, any adverse changes to the banking sector, including changes in reserve requirements over loans, reductions in the margins of interests, increases in the levels of default by banks and the levels of non-accruing loans could have an adverse effect on the industry in general and thus over us as well.

The Panamanian banking industry is currently undergoing a process of strengthening its regulation and supervision through the implementation of Basel II. Basel II requires stricter capital requirements based on the most sophisticated measures of risk, with the aim to lessen the impact of potential crises or important and unexpected losses.

Banks that operate in Panama are subject to periodic inspections by the Superintendence of Banks, as well as compliance with varying norms regarding their activities, including minimum capital and reserve requirements, limitations on loans to a single entity or related parties, and other credit restrictions, as well as accounting and statistical requirements.

The retail and corporate lending market is affected by macroeconomic changes that may negatively impact household income, and a downturn in the economy could result in increased loan losses.

Part of our strategy is to continue to grow our retail and corporate loan portfolio. As a result, our loan portfolio will become increasingly vulnerable to macroeconomic changes that could negatively impact the household income of retail customers and result in increased loan losses. Furthermore, there is little basis on which to evaluate how the retail sector will perform in the event of a significant economic crisis, such as a recession. Consequently, historical loan loss experience may not be indicative of the performance of our loan portfolio in the future.

Our growth has posed operational challenges, which, if not addressed, could negatively affect our financial condition and results of operations.

Demand for credit in Panama has grown significantly, and we have grown to meet that demand. Our total outstanding loans increased from U.S.\$2.96 billion as of June 30, 2013 to U.S.\$3.53 billion as of June 30, 2014. As a result of this rapid growth, we face challenges in the recruitment of new talent and the training, supervision and retention of our employees. Sustained growth will require high-quality systems and talented people, and extremely rapid growth in demand may overwhelm our capacity. If we are unable to develop our systems and human resources effectively, the resulting strains on credit quality and capacity for further growth may materially and adversely affect our financial condition and results of operations. In addition, the expansion of the loan portfolio may also result in the potential for higher rates of past due and non-performing loans, which could materially adversely affect our financial condition and results of operations.

We face competition from other banking and financial institutions, and, if we are unable to compete successfully, our business may be adversely affected.

The banking market in Panama is highly competitive. We face strong competition from local and foreign banks, including new entrants, which has placed pressure on margins. Competition may reduce the average interest rates that we can charge our customers, increase the average rates we must pay on deposits and negatively affect loan growth. Some competitors may have access to greater resources and be more successful in the development of technologically advanced products and services that may compete directly with our products and services. If competitors are successful in developing products and services that are more effective or less expensive than the products and services we offer, we may be unable to compete successfully. Even if our products and services prove to be more effective than those developed by other competitors, such other competitors may be more successful in marketing their products and services because of their greater financial resources, higher sales, marketing capacity and other factors. We may not be able to maintain our market share if we are not able to match our competitors' loan pricing or keep pace with their development of new products and services. Adverse impact resulting from increased competition could have a material adverse effect on our results of operations and financial condition.

Adverse conditions in the international credit and capital markets may significantly affect our ability to meet funding and liquidity needs and may increase our cost of funding.

We plan to diversify our funding sources from traditional deposits by also accessing international credit and capital markets to fund our business and as an additional source of liquidity. Liquidity and costs of obtaining funding internationally are related to international credit and capital market conditions.

Global credit and capital markets have experienced higher volatility in recent years. While there have been periods of stability in these markets, the environment has become more unpredictable. The recent volatility in global financial markets has added to the uncertainty about the global economic outlook, and a number of countries are experiencing slowing economic activity. These events have damaged, and may continue to damage, market confidence, and access to, and costs of, funding and may slow the activity of our clients and have other impacts on the entities with which we do business. The vulnerable nature of several sovereign nations and the associated impact on market conditions have resulted in a tightening of credit markets and wholesale funding conditions.

If market conditions continue to deteriorate due to economic, financial, political or other reasons, our funding costs may be adversely affected, and our liquidity, funding and lending activities may be constrained.

If we are unable to source appropriate funding from the capital markets, we may also be forced to reduce our lending or begin to sell liquid securities. Such actions may adversely impact our business, results of operations, liquidity, capital resources and financial condition.

We may not be able to obtain the funding required to support our growth and implement our strategy.

Our strategy to continue to expand our distribution network and grow our loan portfolio will require us to obtain significant funding. We are seeking to diversify our sources of funding beyond traditional deposits. Our access to funding will depend on many factors, including factors beyond our control, such as conditions in the international capital markets and investor perceptions of the risks of investing in Panama and in emerging markets generally. If we are unable to source sufficient funds through local savings and time deposits by accessing the international capital markets on favorable terms or at all, we may not be able to implement our strategy, which could have a material adverse effect on our ability to grow our business.

Our allowances for impairment losses may not be adequate to cover future actual losses to our loan portfolio.

As of June 30, 2014, our allowance for loan losses was U.S.\$46.2 million, and the ratio of our allowance for loan losses to total loans was 1.31%. The amount of allowances is based on our current assessment of, and expectations concerning, various factors affecting the quality of our loan portfolio. These factors include, among other things, borrowers' financial condition, repayment abilities and repayment intentions, the realizable value of

any collateral, the prospects for support from any guarantor, Panama's economy, government macroeconomic policies, interest rates and the legal and regulatory environment. As the recent global financial crisis has demonstrated, many of these factors are beyond our control. In addition, as these factors evolve, the models we use to determine the appropriate level of allowance for impairment losses on loans and other assets require recalibration, which can lead to increased provision expenses. We believe our allowance is adequate as of the date hereof for all known losses. If our assessment of and expectations concerning the above-mentioned factors differ from actual developments, or if the quality of our loan portfolio deteriorates or the future actual losses exceed our estimates, our allowance for impairment losses may not be adequate to cover actual losses, and we may need to make additional provisions for impairment losses, which may materially and adversely affect our results of operations and financial condition.

Our results of operations and financial condition could be negatively impacted by the depreciation of Panamanian sovereign and other debt securities.

Our investment portfolio is composed of Panamanian sovereign and international corporate debt securities, including securities issued by U.S., Latin American, U.K. and European financial institutions and structured notes. The value of certain of these investments may decline significantly due to volatile financial markets and may fluctuate over short periods of time. Therefore, our results of operations are exposed to credit, market and liquidity risks associated with Panamanian sovereign debt and other debt securities. As of June 30, 2014, our total investment portfolio (all classified as securities available-for-sale in our consolidated financial statements as of June 30, 2014) represented 9.1% of our total assets, and 0.9% of these securities were issued by the Panamanian government or otherwise exposed to Panamanian sovereign risk; 46.9% were issued by Panamanian issuers; 7.8% were issued by U.S. issuers; 34.7% were issued by Latin American issuers; and 8.6% were issued by U.K. and European issuers. Our structured note portfolio consisted of 0.57% of our total assets as of June 30, 2014, and debt securities issued by financial institutions consisted of 3.99% of our total assets as of that date. Realized investment gains and losses have had and will continue to have an impact on our results of operations and financial condition. The amounts of such gains and losses, which we generally record when investments in securities are marked to market or recognized at fair value, may fluctuate considerably from period to period. The level of fluctuation depends, in part, upon the market value of the securities, which, in turn, may vary considerably and may be adversely affected by volatility in securities prices as a result of the European sovereign debt crisis, volatility in the capital markets, and credit and liquidity conditions, among others. A significant decline in the value of the securities issued or guaranteed by the Panamanian government or our other debt securities in our investment portfolio could lead to losses and, consequently, adversely affect our results of operations and financial condition.

Any failure to comply with anti-money laundering and anti-terrorist financing laws and regulations could damage our reputation or expose us to penalties.

Our measures, procedures and compliance with applicable anti-money laundering and anti-terrorist financing laws and regulations and internal policies and procedures, including internal controls and "know-your-customer" procedures, aimed at preventing money laundering and terrorist financing may not be completely effective in preventing third parties from using us as a conduit for money laundering (including illegal cash operations) or terrorist financing without our (and our subsidiaries') knowledge. If we are to be associated with money laundering (including illegal cash operations) or terrorist financing, our reputation could suffer and/or we could become subject to fines, sanctions or legal enforcement, including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with us, which could have a material adverse effect on our business, financial condition and results of operations.

The performance of our agribusiness portfolio is subject to factors that are beyond our control, which may adversely affect our profitability.

Our agribusiness credit portfolio accounts for 7.6% of our total loan portfolio and 11.5% of our corporate banking division's total loan portfolio as of June 30, 2014. The performance of our agribusiness credit portfolio is subject to factors that are beyond our control, such as the price of agricultural commodities, weather conditions, crop failures, and the government's policy relating to agricultural subsidies and credit, which may adversely affect our profitability. See "Business—Major Business Lines—Corporate Banking—Corporate Banking for the Agricultural Sector" for a discussion of our agribusiness credit portfolio.

Changes in Panamanian government policies regarding agricultural loan and mortgage portfolio subsidies could adversely affect our business, financial condition and results of operations .

A large part of our agricultural loan and mortgage portfolio is subsidized by the Panamanian government. The Panamanian government promotes agricultural and residential housing loan programs by offering subsidies to borrowers in the local market. Under the current agricultural loan program, we receive from the Panamanian government a monthly subsidy in cash. Under the current residential housing loan program, we offer mortgage loans with a preferential rate and receive a subsidy from the Panamanian government in the form of a tax credit that currently varies from 2.0% to 6.25%, depending on the value of the property. As of June 30, 2014, 70.2% of the agricultural loan portfolio and 50.4% of our mortgage loan portfolio had the benefit of these subsidies from the Panamanian government. There can be no assurance that the Panamanian government will maintain the current strategy and policies with respect to subsidies to the agricultural and residential mortgage businesses and that it will not adopt policies that would negatively affect our profitability and potential growth in the agricultural and residential mortgage market.

We rely on third parties to provide certain components of our business infrastructure.

Third parties provide key components of our business infrastructure, such as IT systems, internet connections, and network access and other voice or data communication services. Given the high volume of transactions we process on a daily basis, certain errors may be repeated or compounded before they are discovered and successfully rectified. Disruptions in IT systems, internet, network access, or other voice or data communication services provided by these third parties could adversely affect our ability to deliver products and services to clients and otherwise conduct business.

We are exposed to operational and infrastructure risks.

We are exposed to many types of operational risk, including the risk of loss resulting from inadequate or failed internal processes and systems, human error or external events and from fraud or unauthorized transactions by employees, clients and other third parties. Shortcomings or failures in our internal processes, systems or people, including any of our financial, accounting or other data processing systems, could lead to, among other consequences, financial loss and reputational damage. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by us or by third parties with which we conduct business.

Minimum capital requirement limits imposed on Panamanian financial institutions may adversely affect us.

In June 2004, the Basel Committee approved a new framework for risk based capital adequacy (“Basel II”). Basel II sets out the details for adopting more risk sensitive minimum capital requirements for financial institutions. The Superintendency of Banks adopted and implemented various guidelines under Basel II through the Banking Law and various regulations, principally Accord 54-2008 as amended.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced changes to the existing capital requirements and endorsed previous agreements on the design of the capital and liquidity reform package (“Basel III”), which was presented at the Seoul G20 Leaders summit in November 2010. The Superintendency of Banks has not given an indication as to which Basel III guidelines, if any, will be adopted in Panama and the timing for adoption of implementation thereof.

As of the date of this offering memorandum, General License Banks (such as us) must have paid-in capital of not less than U.S.\$10 million, maintain a total regulatory capital over risk-weighted assets ratio of 8.0% and a Tier I over risk-weighted assets ratio of 4.0%. See “*Regulatory Matters—General—Banking Supervision and Regulation.*” As of June 30, 2014, our paid-in capital was U.S.\$79.2 million, our total regulatory capital over risk-weighted assets ratio was 14.0% and our total Tier 1 over risk-weighted assets ratio was 10.6%. See “*Management’s Discussion and Analysis of Financial Position and Results of Operation—Liquidity and Capital Resources—Regulatory Capital.*”

While our management believes that we have enough flexibility to comply with any heightened requirements that may be introduced by the Superintendency of Banks as a result of its implementation of Basel III, any changes in capital adequacy regulations may limit our credit operations and our ability to dispose of assets and/or take other measures, which may adversely affect our business, financial condition and results of operation.

Risks Relating to the Notes

There is no existing market for the trading of the Notes, and we cannot assure you that you will be able to sell your Notes in the future.

The Notes will constitute a new issue of securities. There is no existing market for trading of the Notes, and we cannot assure you that in the future a market for the Notes will develop, that you will be able to sell any Notes you have purchased or that any such Notes may be sold for any particular price. Although we have applied to the Luxembourg Stock Exchange for the Notes to be admitted to the Official List and to trading on the Global Exchange Market, we cannot provide you with any assurances regarding the future development of a market for the Notes, the ability of holders of the Notes to sell their Notes, or the price at which such holders may be able to sell their Notes. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial offering price, depending on many factors, including prevailing interest rates, our results of operations and financial condition, the interest of securities dealers in making a market for them, political and economic developments in and affecting Panama and the markets for similar securities, and economic, financial, geopolitical, regulatory or judicial events that affect us or the financial markets generally. The initial purchasers have advised us that they currently intend to make a market in the Notes, but they are not under any obligation to do so, and any market-making with respect to the Notes may be discontinued at any time without notice at the sole discretion of the initial purchasers.

In addition, trading or resale of the Notes (or beneficial interests therein) may be negatively affected by other factors described in this offering memorandum arising from this transaction or the market for securities of Panamanian issuers generally. As a result, we cannot assure you the level of liquidity of any trading market for the Notes, and, as a result, you may be required to bear the financial risk of your investment in the Notes indefinitely.

Our ability to service our debt, including the Notes, depends on our ability to generate significant cash flows in the future.

Our ability to meet our payment and other obligations under our debt instruments, including the Notes, depends on our ability to generate significant cash flows in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors, as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flows from operations, or that future borrowings will be available to us under our existing or any future credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under the Notes and our other debt and to fund other liquidity needs. If we are unable to generate sufficient cash flows to service our debt obligations, we may need to refinance or restructure our debt, including the Notes, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the Notes and our other debt.

There are restrictions on your ability to transfer the Notes.

The Notes have not been registered under the Securities Act, any U.S. state securities laws or the laws of any other jurisdiction. As a result, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Such exemptions include offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A under the Securities Act. For a discussion of certain restrictions on resale and transfer, see “*Plan of Distribution*” and “*Transfer Restrictions*.” Consequently, a holder of Notes and an owner of beneficial interests in those Notes must be able to bear the economic risk of their investments in the Notes for the term of the

Notes.

We cannot assure you that the credit ratings for the Notes will not be lowered, suspended or withdrawn by the rating agencies.

The credit ratings of the Notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but, rather, reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the Notes.

Developments in other countries may adversely affect the market value of the Notes.

The market price of the Notes may be adversely affected by developments in the international financial markets and world economic conditions. Panamanian securities markets are influenced, to varying degrees, by economic and market conditions in other countries, especially those in Latin America and other emerging markets. Although economic conditions are different in each country, investor reaction to the developments in one country may affect the securities of issuers in other countries, including Panama. We cannot assure you that the market for the securities of Panamanian issuers will not be affected negatively by events elsewhere or that such developments will not have a negative impact on the market value of the Notes.

Different disclosure requirements in Panama and the United States may provide you with different or less information about us than you expect.

Securities disclosure requirements in Panama differ from those applicable in the United States. Accordingly, the information about us that is available to you may not be the same as the information available to security holders of a U.S. company. There may be less publicly available information about us than is regularly published about companies in the U.S. and certain other jurisdictions. We are not subject to the periodic reporting requirements of the Exchange Act and, therefore, are not required to comply with the information disclosure requirements that it imposes.

Enforcing your rights as a holder of Notes in Panama may prove difficult.

Your rights under the Notes will be subject to the insolvency and administrative laws of Panama, and we cannot assure you that you will be able to effectively enforce your rights in such insolvency or similar proceedings. In addition, insolvency, administrative and other laws of Panama may be materially different from, or in conflict with, each other, including in the areas of rights of creditors, priority of government entities and related party creditors, and the ability to obtain post-bankruptcy filing loans or to pay interest. The application of these laws, or any conflict among them, could call into question what and how Panamanian laws should apply. The laws of Panama may not be as favorable to your interests as the laws of jurisdictions with which you are familiar. Such issues may adversely affect your ability to enforce your rights under the Notes in Panama, as the case may be, or limit any amounts that you may receive.

While the Banking Law treats senior unsecured indebtedness issued at different times as *pari passu* in accordance with the terms of that indebtedness, the civil code treats previously issued senior unsecured indebtedness as senior to any new senior unsecured indebtedness. We currently have U.S.\$658.3 million of senior unsecured indebtedness outstanding. While we expect that a court would treat all of our senior unsecured indebtedness as *pari passu* in accordance with the Banking Law, as no banks have become insolvent since that law became enacted we cannot assure you that a court would not apply the civil code, which would make all senior unsecured debt issued prior to the Notes senior to the Notes. Furthermore, our local creditors (particularly our creditors of indebtedness represented by negotiable instruments or other instruments governed by Panamanian law that grant rights to executory proceedings, the Panamanian tax administration, and other governmental entities and municipalities) are

in a better position than holders of the Notes to obtain pre-judgment attachment of our assets from a Panamanian court. If our assets are attached by any of these creditors, creditors benefitting from the attachment will have priority against other creditors (including holders of the Notes) over the assets attached.

The ability of investors to enforce civil liabilities under U.S. securities laws may be limited.

Most of our directors or executive officers are not domiciled in the United States. All or a substantial portion of our assets and those of our directors and executive officers are located outside of the United States. As a result, it may not be possible for investors in our securities to effect service of process within the United States upon such persons or to enforce judgments of U.S. courts against them or our company, including in any action based on civil liabilities under the U.S. federal securities laws. There is uncertainty as to the enforceability against such persons in Panama, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

Additionally, in the event of nonpayment of any amount payable by us, including amounts payable under the Notes, if we were required to pay a certain sum, a specific process would need to be followed as determined by Panamanian law in order to provide the corresponding payment after it has been included in our budget. Such processes could result in substantial delay in payment.

The perception of higher risk in other countries, especially in emerging economies, may adversely affect the Panamanian economy, our business and the market price of Panamanian securities issued by Panamanian issuers, including the Notes.

The market price of the Notes may be adversely affected by developments in the international financial markets and world economic conditions. Panamanian securities markets are influenced, to varying degrees, by economic and market conditions in other countries, especially those in Latin America and other emerging markets. Emerging markets like Panama are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt business in Panama and adversely affect the price of the Notes. Moreover, financial turmoil in any important emerging market country may adversely affect prices in stock markets and prices for debt securities of issuers in other emerging market countries as investors move their money to more stable, developed markets. An increase in the perceived risks associated with investing in emerging markets could dampen capital flows to Panama and adversely affect the Panamanian economy in general, and the interest of investors in the Notes, particularly in Panama. We cannot assure you that the value of the Notes will not be negatively affected by events in other emerging markets or the global economy in general.

Payments to, on and with respect to Notes may be subject to U.S. withholding tax when paid to certain investors.

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), and the Treasury Regulations promulgated thereunder (“FATCA”) are intended to assist the United States Internal Revenue Service (“IRS”) in enforcing U.S. taxpayer compliance. FATCA imposes a 30% withholding tax on certain payments to and from certain non-U.S. financial institutions (“foreign financial institutions” or “FFIs”, including entities such as us) that do not enter into and comply with an agreement with the IRS (an “FFI Agreement”) to provide certain information on U.S. account holders, including holders of its debt or equity (other than debt or equity interests that are regularly traded on an established securities market).

Specifically, FATCA imposes such withholding tax on certain payments from sources within the United States to FFIs that do not enter into FFI Agreements (“Non-Participating FFIs”) and on “foreign passthru payments” from FFIs that do enter into FFI Agreements (“Participating FFIs”) to Non-Participating FFIs (including, in both cases, where such Non-Participating FFIs are acting as intermediaries) or to certain investors that do not provide identification information to a Participating FFI to allow it to comply with the FFI Agreement. As such, holders of the Notes may be required to provide certain information or be subject to withholding on certain payments made to them in order for us to comply with FATCA. If a holder (including an intermediary) fails to provide us or any agent of ours with any correct, complete and accurate information that may be required for us to comply with FATCA

and/or to prevent the imposition of FATCA withholding tax, we may withhold amounts otherwise distributable to the holder. Further, if a payment to a holder or intermediary of a Note is subject to withholding as a result of FATCA or an agreement relating thereto, there will be no “gross up” (or any other additional amount) payable by way of compensation to the holder for the deducted amount. See the relevant sections relating to U.S. federal income tax considerations below for a further discussion of FATCA.

Each holder of Notes should consult its own tax advisor to obtain a more detailed explanation of FATCA and to learn how it might affect such holder in its particular circumstances.

USE OF PROCEEDS

The net proceeds from the sale of the Notes will be approximately U.S.\$396,608,000 after deduction of certain expenses (including fees and commissions payable to the initial purchasers). We intend to use the net proceeds from this offering for general corporate purposes.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2014 on an actual basis and on an as adjusted basis to give effect to this offering and the use of proceeds therefrom.

This table should be read in conjunction with “*Summary Financial Information*,” “*Selected Statistical and Financial Information*” and “*Management’s Discussion and Analysis of Financial Position and Results of Operations*,” as well as the consolidated financial statements and notes thereto contained elsewhere in this offering memorandum.

From June 30, 2014 to the date of this offering memorandum, there has been no material change in our capitalization.

| | Actual | As Adjusted |
|---|-----------------------|--------------------|
| | (U.S.\$ in thousands) | |
| Current liabilities | | |
| Demand deposits | 461,767.9 | 461,767.9 |
| Savings deposits | 588,245.4 | 588,245.4 |
| Time deposits | 840,701.7 | 840,701.7 |
| Interbank time deposits | 122,341.5 | 122,341.5 |
| Securities sold under repurchase agreements | 635.9 | 635.9 |
| Borrowed funds | 283,518.7 | 283,518.7 |
| Commercial paper | 59,871.0 | 59,871.0 |
| Corporate bonds payable | - | - |
| Convertible and subordinated bonds | - | - |
| Other liabilities | 64,988.3 | 64,988.3 |
| Total current liabilities | 2,422,070.4 | 2,422,070.4 |
| Non-current liabilities | | |
| Demand deposits | - | - |
| Savings deposits | - | - |
| Time deposits | 861,271.0 | 861,271.0 |
| Interbank time deposits | - | - |
| Securities sold under repurchase agreements | - | - |
| Borrowed funds | 168,744.8 | 168,744.8 |
| Commercial paper | - | - |
| Corporate bonds payable | 516,040.6 | 916,040.6 |
| Convertible and subordinated bonds | 99,522.6 | 99,522.6 |
| Other liabilities | 42,849.6 | 42,849.6 |
| Total non-current liabilities | 1,688,428.6 | 2,088,428.6 |
| Total stockholders’ equity | 369,128.2 | 369,128.2 |
| Total capitalization | 4,479,627.2 | 4,879,627.2 |

SELECTED FINANCIAL INFORMATION

The following information is only a summary and should be read together with “*Management’s Discussion and Analysis of Financial Position and Results of Operations*” and our consolidated financial statements, together with the notes thereto, included elsewhere in this offering memorandum. The following summary of financial information as of June 30, 2014, 2013 and 2012 and for the fiscal years ended June 30, 2014, 2013 and 2012 has been derived from our consolidated financial statements, together with the notes thereto, included elsewhere in this offering memorandum, which have been prepared in accordance with IFRS as adopted by the International Accounting Standards Board and modified, from time to time, by prudential regulations issued by the Superintendency of Banks. The financial and operating data as of June 30, 2014 and 2013 and for the fiscal years ended June 30, 2014, 2013 and 2012 are not necessarily indicative of our future performance.

| | As of and for the years ended June 30, | | |
|--|--|--------------------|--------------------|
| | 2014 | 2013 | 2012 |
| | (U.S.\$ in thousands except percentages) | | |
| CONSOLIDATED STATEMENT OF PROFIT OR LOSS | | | |
| Interest and commissions income | 266,267.4 | 236,914.8 | 213,815.9 |
| Interest and commissions expense | 118,595.1 | 105,827.6 | 90,099.6 |
| Interest and commissions income before allowance for loan losses | 147,672.2 | 131,087.1 | 123,716.3 |
| Interest and commissions income after allowance for loan losses | 139,672.2 | 122,587.1 | 108,141.3 |
| Allowance for loan losses | 8,000.0 | 8,499.9 | 15,575.0 |
| Total other income, net | 15,027.1 | 29,789.3 | 10,510.1 |
| Total income, net | 154,699.3 | 152,376.5 | 118,651.0 |
| General and administrative expenses | 80,172.5 | 71,119.7 | 63,823.2 |
| Profits before income tax | 74,526.8 | 81,256.8 | 54,828.1 |
| Income tax, net | 8,556.3 | 9,720.2 | 4,476.5 |
| Net income | 65,970.5 | 71,536.6 | 50,351.6 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | | | |
| Cash, cash items and due from banks ⁽¹⁾ | 424,597.2 | 488,340.1 | 374,527.9 |
| Securities purchased under resale agreement | 3,000.0 | 5,497.7 | 1,044.5 |
| Securities available-for-sale | 405,724.7 | 271,593.5 | 134,721.1 |
| Securities held to maturity | — | — | 264,310.7 |
| Loan portfolio, net | 3,477,923.7 | 2,902,767.7 | 2,475,362.2 |
| Property, furniture, equipment and improvements, net | 55,893.7 | 48,736.3 | 41,621.4 |
| Other assets ⁽²⁾ | 112,487.9 | 94,160.5 | 90,435.2 |
| Total assets | 4,479,627.2 | 3,811,095.8 | 3,382,023.0 |
| Clients’ and interbank deposits | 2,874,327.5 | 2,634,887.6 | 2,295,375.5 |
| Securities sold under repurchase agreements | 635.8 | — | 29,915.8 |
| Borrowed funds | 452,263.5 | 290,113.3 | 436,774.5 |
| Commercial paper | 59,871.0 | 59,074.0 | 85,340.0 |
| Corporate bonds payable | 516,040.6 | 325,103.1 | 121,342.0 |
| Convertible bonds | 10,000.0 | 10,000.0 | 10,000.0 |
| Subordinated bonds | 89,522.6 | 90,020.0 | 90,020.0 |
| Other liabilities | 107,837.9 | 94,466.3 | 78,300.8 |
| Total liabilities | 4,110,499.0 | 3,503,664.3 | 3,147,068.5 |
| Shareholder’s equity ⁽³⁾ | 369,128.2 | 307,431.5 | 234,954.6 |
| Total liabilities and shareholder’s equity | 4,479,627.2 | 3,811,095.8 | 3,382,023.1 |
| SELECTED FINANCIAL RATIOS | | | |
| Profitability | | | |
| Return on Assets (ROA) | 1.6% | 2.0% | 1.6% |
| Return on Equity (ROE) | 19.5% | 26.3% | 23.7% |
| Asset Quality | | | |
| Past due loans/total loan portfolio | 0.8% | 0.8% | 0.8% |
| Provisions for loan losses/total loan portfolio | 1.3% | 1.4% | 1.5% |
| Liquidity | | | |
| Regulatory Liquid Assets/Deposits ⁽⁴⁾ | 39.6% | 49.1% | 48.0% |
| Capital Adequacy | | | |
| Equity to assets ratio | 8.24% | 7.6% | 6.8% |
| Capital ratio | 14.1% | 14.8% | 15.0% |

(1) Includes foreign and domestic demand and time deposits.

- (2) Includes interest receivable on time deposits, loans and investments; clients' obligations under acceptances; goodwill (net); deferred income tax, and other assets.
- (3) Includes common shares, preferred shares, capital reserve, net changes on securities available-for-sale, net changes in hedging instruments and retained earnings.
- (4) Regulatory liquid assets are determined based on guidelines established by the Superintendency of Banks. Among others, regulatory liquid assets include cash, demand deposits, time deposits with remaining maturities of less than 186 days, notes issued by the Panamanian government with maturities of one year or less, and investment-grade foreign debt securities.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following discussion contains an analysis of our consolidated results of operations and financial position as of and for the fiscal years ended June 30, 2014, June 30, 2013 and June 30, 2012. The following discussion should be read in conjunction with our consolidated financial statements, together with the notes thereto, included elsewhere in this offering memorandum. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in "Risk Factors." The consolidated financial statements in this offering memorandum have been prepared in accordance with IFRS, as modified by prudential regulations issued from time to time by the Superintendency of Banks.

Our consolidated financial statements are expressed in Balboas (B.), the official monetary unit of Panama. The Balboa is freely exchangeable for the U.S. dollar on a one-to-one basis. Panama does not issue paper currency; instead, it uses the U.S. dollar as its legal currency. For ease of reference, all amounts discussed herein are expressed in U.S. dollars (U.S.\$), the lawful currency for the time being of the United States of America.

Overview

We are a corporation (*sociedad anónima*) incorporated pursuant to the laws of Panama. As of June 30, 2014, we were the second largest privately owned bank in Panama (excluding banks controlled by the Panamanian government and foreign banks) in terms of total assets, total loans and total deposits with U.S.\$4.5 billion in total assets, representing a 14.5% market share, U.S.\$3.2 billion in unpaid principal balance of total domestic loans, representing a 19.5% market share, and U.S.\$2.6 billion in total domestic customer deposits, representing a 12.4% market share, each according to information published by the Superintendency of Banks. As of June 30, 2014, our loan portfolio was split with 66.5% in the corporate sector and 33.5% in the consumer sector, and, as of such date, we were the third largest provider of commercial loans in Panama, with a 10.6% market share, and the fourth largest provider of consumer loans in Panama in terms of principal balance of total loans outstanding, which includes all retail loans other than mortgages, with a 7.0% market share (excluding banks controlled by the Panamanian government). As of June 30, 2014, we held a market share of 18.5% in agricultural loans in Panama. Within the consumer loan segment, we were also the third largest provider of auto loans among banks in Panama in terms of outstanding balance, with a 15.1% market share as of June 30, 2014.

For the fiscal years ended June 30, 2014, 2013 and 2012, our net income was U.S.\$65.9 million, U.S.\$71.5 million and U.S.\$50.4 million, respectively. As of June 30, 2014, our shareholders' equity was U.S.\$369.1 million. Our annual return on average common shareholders' equity for the fiscal year ended June 30, 2014 was 19.5%, and our annual return on average total assets for the year ended June 30, 2014 was 1.6%.

We serve our customers through a nationwide network of 32 branches, three loan centers, and a network of 110 ATMs and ten drive-through ATMs, the second largest points-of-service network of a privately owned bank in Panama (excluding banks controlled by the Panamanian government and foreign banks) as of June 30, 2014. We had over 137,650 active retail and corporate customers as of June 30, 2014.

We are part of the conglomerate controlled by G.B. Group Corporation. G.B. Group Corporation is a publicly traded company listed in the Panamanian Stock Exchange (*Bolsa de Valores de Panamá*). We control, among others, a factoring financial entity, Factor Global Inc.; an offshore bank, Global Bank Overseas Limited; a brokerage firm, Global Valores, S.A.; an insurance company, Aseguradora Global, S.A.; and a trust administration entity, Global Financial Funds Corporation. Each of these subsidiaries is consolidated in our consolidated financial statements. Through these entities, we offer a variety of products and services to both consumers and corporate clients, including traditional banking, as well as factoring, securities brokerage services, insurance and surety bond issuance services, real estate management, investment banking, and financial consultation services. See "*Business—Corporate Organizational Structure*" below.

Revenues

Since we were incorporated, we have focused on increasing our retail loan portfolio consisting of personal, mortgage, automobile and credit card loans. We believe that the retail banking sector presents significant growth opportunities and provides for higher margins while maintaining a reasonable level of exposure to risk. Our outstanding retail portfolio has grown from 31.5% of the total loan portfolio as of June 30, 2013 to 33.5% as of June 30, 2014.

In addition to servicing large corporate customers, we are also focused on providing corporate banking services to small and medium-sized businesses, which typically are underserved by the larger commercial banks in Panama. Interest income on outstanding loans for the fiscal year ended June 30, 2014 was 91.6% of the total interest income. The remainder 8.4% of the interest and commissions income was generated by interest earned on deposits (0.5%) and investment securities (7.9%).

The highest growth areas in our corporate banking sector have been construction and infrastructure. The strategy is to further develop these products, as well as cash management and factoring services, and to increase penetration among small and medium-sized businesses in high-growth industries.

Total income, net are also derived from fee income from financial services, which is a relatively stable source of revenue. Fee income (defined as the total of commission income on saving accounts and debit cards plus fiduciary and management services), which accounted for 3.6% of total income, net for the fiscal year ended June 30, 2014, consists primarily of credit and debit card fees and fees related to account maintenance and also includes other fees, such as ATM fees charged to non-customers, fees for collection services, corporate finance fees and fees on indirect loans. Unlike interest and commissions on loan transactions, fee income does not require a substantial commitment of capital.

Revenues are also derived from investments. For the fiscal year ended June 30, 2014, interest earned on investments constituted 7.9% of our total interest earned.

Expenses

Our expenses are substantially comprised of financial expenses, provisions for possible loan losses, commission expenses, and general and administrative expenses. Financial expenses are primarily comprised of interest and fees on customer deposits, amounts due to banks and correspondents, and interest on bonds and obligations outstanding.

Sources of Funds

Our primary source of funds is deposits, which amounted to U.S.\$2,874.3 million as of June 30, 2014. Our clients' and interbank time deposits represented 95.7% of total deposits as of June 30, 2014. Our customer deposits provide a relatively low-cost, diverse and stable source of funding.

Principal Trends Affecting Our Business

Panamanian Economic Conditions

Substantially all of our operations are conducted in Panama. As a result, our results of operations and financial condition are dependent on the Panamanian economy, inflation, interest rates, regulation, taxation, social instability, political unrest and other developments in or affecting Panama. Panama's economic growth slowed during fiscal year 2009, with GDP growth of 3.9% for 2009 as compared to GDP growth of 10.1% for 2008, due in part to the impact of the global economic crisis on the Panamanian economy. This was mainly due to the United States, Panama's main trading partner and the main source of customers of the Panama Canal, experiencing a marked deceleration of economic activity during the period. In 2012 and 2013, Panama's economy registered growth of 10.7% and 8.4%, respectively. If the growth of the Panamanian economy slows, it would adversely affect our results of operations and financial condition. Due to the small size and limited focus of the Panamanian

economy, adverse developments in Panama (even developments affecting a single activity) could have a more pronounced effect than would be the case if the developments occurred within the context of a larger, more diversified economy. In addition, our results of operations and financial condition are affected by developments in the global economy.

Growth of the Panamanian Banking Sector

Outstanding loans throughout the Panamanian banking system have increased from U.S.\$43.1 billion at the end of June 2012 to U.S.\$50.3 billion at the end of June 2013 and to U.S.\$52.2 billion at the end of June 2014, according to information published by the Superintendency of Banks. Similarly, deposits in the Panamanian banking system grew from U.S.\$52.1 billion at the end of June 2012 to U.S.\$ 59.2 billion at the end of June 2013 and to U.S.\$62.6 billion at the end of June 2014, according to information published by the Superintendency of Banks. We experienced similar growth in the last few years.

In recent years, new banks have entered the Panamanian banking market including Bancolombia S.A., which recently completed the acquisition of HSBC Bank (Panama) S.A. and Grupo Aval S.A. (Colombia's largest financial conglomerate) which acquired BAC-Credomatic, one of Central America's largest financial conglomerates, in 2010 and BBVA Panama in 2013. As of June 2014, our principal competitors were Banco Nacional de Panamá; Banco General, S.A.; Banistmo (Panama), Scotiabank (Panama); BAC (Panama); Banesco, Multibank and Scotiabank. See "*Business—Panamanian Banking Industry and Competition.*"

Interest Rates

Interest rates earned and paid on our assets and liabilities, respectively, are determined by market conditions and reflect, to a certain degree, expectations regarding inflation and shifts in interest rates set by the U.S. Federal Reserve, which are then reflected in Panama.

The U.S. Federal Reserve has kept interest rates at historically low levels and has publicly stated its commitment to keep rates at these low levels at least until 2014. While interest rates are at historically low levels, if inflation pressures start to mount as a result of an economic recovery, the U.S. Federal Reserve may tighten its monetary policy. Tightening measures, if enacted in the future, may have an adverse impact on our cost of funds and net interest margin.

Inflation

Our performance may be impacted by inflation, because substantially all of our loans are not fully adjusted for the effects of inflation. Since shortly after its independence from Colombia in 1903, Panama has used the U.S. dollar as legal tender and sole paper currency, using the Balboa only as coinage and as a unit of account with an exchange rate set at parity with the U.S. dollar. Inflation was 5.7%, 4.0% and 4.7% in 2012, 2013, and for the six months ending June 30, 2014 respectively. Given the dependence on the U.S. dollar and the U.S. economy, appreciation or depreciation of the U.S. dollar against other currencies or the existence of sustained higher levels of inflation in the U.S. economy (and the resultant effect on the value of the U.S. dollar) or increases or decreases in interest rates generally in the United States may affect the Panamanian monetary system or, indirectly, us.

Results of Operations for the Year Ended June 30, 2014 Compared to the Year Ended June 30, 2013

The following table sets forth the principal components of our net income for the years ended June 30, 2014 and 2013.

| | For the years ended June 30, | | (U.S.\$ in thousands) | % |
|--|------------------------------|-----------|-----------------------|---------|
| | 2014 | 2013 | | |
| Interest and Commissions Income..... | 266,267.4 | 236,914.8 | 29,352.6 | 12.4% |
| Interest and Commissions Expenses..... | 118,595.1 | 105,827.6 | 12,767.5 | 12.1% |
| Net Interest and Commissions Income before Allowances for loan losses | 147,672.3 | 131,087.2 | 16,585.1 | 12.6% |
| Allowance for loan losses..... | 8,000.0 | 8,499.9 | (499.9) | (5.9)% |
| Net Interest and Commissions Income after Allowances for loan losses | 139,672.3 | 122,587.2 | 17,085.1 | 13.9% |
| Total other income, net..... | 15,027.1 | 29,789.3 | (14,762.2) | (49.6)% |
| Total income, net..... | 154,699.3 | 152,376.5 | 2,322.8 | 1.5% |
| General and administrative expenses..... | 80,172.5 | 71,119.7 | 9,052.8 | 12.7% |
| Profits before income tax | 74,526.8 | 81,256.8 | (6,730.0) | (8.3)% |
| Net income tax | 8,556.3 | 9,720.2 | (1,163.9) | (12.0)% |
| Net Income..... | 65,970.5 | 71,536.6 | (5,566.1) | (7.8)% |

Net Income decreased by U.S.\$5.6 million, or 7.8%, from fiscal year 2013 to fiscal year 2014. The decrease was primarily due to a change of U.S.\$14.8 million, or 49.6%, in our other income as a result of nonrecurring net gains of U.S.\$21.0 million reported in 2013 resulting from the sale of investments. We also recorded an increase of U.S.\$9.1 million, or 12.7%, in general and administrative expenses due to the expansion of our consumer business and general growth of the bank. Excluding nonrecurring items, net income would have increased U.S.\$8.4 million, or 14.5%, from 2013 to 2014.

Our overall operational efficiency, as measured by our cost-to-income ratio (calculated as the ratio of general and administrative expenses to net operating revenue, the latter being defined as total income, net, before allowance for loan losses) worsened to 49.3% in 2014 from 44.2% in 2013.

We experienced increases in our loan volumes across all segments of our loan portfolios, including consumer, commercial, agricultural, secured by pledge, overdrafts, industrial, construction, leasing and factoring. Our provisions expense for possible loan losses decreased mainly as a result of our decision to stabilize our balance of allowance for loan losses in 2014, because the delinquency projections of our portfolio have consistently decreased.

Interest and Commissions Income

The following table sets forth the principal components of our net interest and commissions income for the years ended June 30, 2014 and 2013.

| | For the years ended June 30, | | Change (U.S.\$ in thousands) | % |
|--|------------------------------|------------------|------------------------------------|--------------|
| | 2014 | 2013 | | |
| Interest and commissions income | | | | |
| Interest income | | | | |
| Interest earned on loans..... | 207,867.2 | 187,148.0 | 20,719.2 | 11.1% |
| Interest earned on deposits | 1,244.8 | 1,332.1 | (87.3) | (6.6)% |
| Interest earned on investments | 17,841.6 | 19,234.4 | (1,392.8) | (7.2)% |
| Total interest income..... | 226,953.7 | 207,714.6 | 19,239.1 | 9.3% |
| Commissions income | | | | |
| Loans..... | 22,478.0 | 16,562.8 | 5,915.2 | 35.7% |
| Letters of credit | 4,339.8 | 2,158.2 | 2,181.7 | 101.1% |
| Savings and debit cards | 3,470.3 | 2,930.2 | 540.2 | 18.4% |
| Fiduciary and management agency | 2,140.7 | 1,520.7 | 620.1 | 40.8% |
| Others | 6,884.8 | 6,028.4 | 856.4 | 14.2% |
| Total commissions income..... | 39,313.7 | 29,200.3 | 10,113.5 | 34.6% |
| Total Interest and Commissions Income | 266,267.4 | 236,914.8 | 29,352.6 | 12.4% |

(1) Includes demand and savings deposits commissions, teller and ATM commissions, transfers, automated clearinghouse fees, legal fees, certified check fees and treasury fees, among others.

In 2014, our interest and commissions income increased 12.4% to U.S.\$266.3 million from U.S.\$236.9 in 2013. This increase was primarily due to an increase of the loan balances to U.S.\$3.5 billion in 2014 from U.S.\$3.0 billion in 2013. Commissions earned on loans increased 35.7% to U.S.\$22.5 million in 2014 from U.S.\$16.6 million in 2013 as a result of the increase in loan volumes.

Interest resulting from investments in securities decreased to U.S.\$17.8 million in 2014 from U.S.\$19.2 million in 2013 due to a decrease of the average volumes of investments in securities, which totaled U.S.\$348.5 million in 2014 as compared to U.S.\$357.3 million in 2013.

Interest and Commissions Expense

The following table sets forth the principal components of our net interest and commissions expense for the years ended June 30, 2014 and 2013.

| | For the years ended June 30, | | Change (U.S.\$ in thousands) | % |
|--|------------------------------|------------------|------------------------------------|--------------|
| | 2014 | 2013 | | |
| Interest and Commissions expense | | | | |
| Interest expense | | | | |
| Expenses on deposits..... | 73,456.3 | 66,186.4 | 7,269.9 | 11.0% |
| Expenses on borrowed funds and repurchase agreements | 8,144.4 | 11,964.6 | (3,820.2) | (31.9)% |
| Expenses on commercial paper and corporate bonds issued ⁽¹⁾ | 29,035.3 | 22,505.5 | 6,529.8 | 29.0% |
| Total interest expense | 110,636 | 100,656.5 | 9,979.5 | 9.9% |
| Commissions expense ⁽²⁾ | 7,959.2 | 5,171.2 | 2,788 | 53.9% |
| Total interest and commissions expense | 118,595.1 | 105,827.7 | 12,767.4 | 12.1% |

(1) Includes expenses of convertible and subordinated bonds.

(2) Includes personal installment loan fees, fees paid for branding, clearing and settlement fees, debit card and electronic payment fees, borrowing fees to other banks, correspondent bank fees and discount and collection services.

In 2014, our net interest and commission expense increased 12.1% to U.S.\$118.6 million from U.S.\$105.8 million in 2013. This increase was primarily due to an increase of 29.0% on interest expense related to corporate

bonds, as the total amount of corporate bonds increased to U.S.\$516.0 million in 2014 from U.S.\$325.1 million in 2013 as a result of our U.S.\$100 million covered bond issuance on September 19, 2013.

Net Interest and Commissions Income before Allowances for Loan Losses

Net interest and commissions income before allowances for loan losses represents the difference between interest and commissions income and interest and commissions expense. As a result of the factors discussed above, our net interest and commissions income before allowances for loan losses increased 12.7% in 2014 compared to 2013, from U.S.\$131.1 million to U.S.\$147.7 million.

Allowance for Loan Losses

The following table sets forth the movements in our provisions for loan losses for the years ended June 30, 2014 and 2013.

| | For the years ended June 30, | | Change |
|--|-------------------------------------|------------------------------|----------------------|
| | 2014 | 2013 | |
| | <i>(U.S.\$ in thousands)</i> | <i>(U.S.\$ in thousands)</i> | |
| Balance at the beginning of the year..... | 41,708.5 | 38,996.2 | 2,712.3 7.0% |
| Provisions charged to expenses..... | 8,000.0 | 8,500.0 | (500.0) (5.9)% |
| Recoveries..... | 1,076.8 | 997.9 | 78.9 7.9% |
| Write-off loans..... | (4,607.2) | (6,785.6) | 2,178.4 32.1% |
| Balance at the end of the year..... | 46,178.1 | 41,708.4 | 4,469.7 10.7% |

Provisions charged to expenses for possible loan losses decreased 5.9% to U.S.\$8.0 million in 2014 from U.S.\$8.5 million in 2013. This decrease was mainly due to our decision to stabilize our balance of allowance for loan losses because the delinquency projections of our loan portfolio consistently decreased. As of June 30, 2014, our allowance for loan losses as a percentage of total loans past due 90 days or more decreased to 172.1% from 179.4% as of June 30, 2013. For a discussion on the effect of upcoming accounting changes relating to our provisions for loan losses, see “*Presentation of Financial Information and Certain Other Information*.”

Net Interest and Commissions Income after Allowances for Loan Losses

Net interest and commissions income after allowances for loan losses represents the net interest and commissions income less provisions for possible loan losses, net of the recovery of such provisions. As a result of the factors discussed above, our net interest and commissions income after allowances for loan losses increased by 13.9% to U.S.\$139.7 million in 2014 compared to U.S.\$122.6 million in 2013.

Total Other Income, Net

The following table sets forth the components of our total other income, net for the years ended June 30, 2014 and 2013.

| | For the years ended June 30, | | Change |
|---|-------------------------------------|------------------------------|---------------------------|
| | 2014 | 2013 | |
| | <i>(U.S.\$ in thousands)</i> | <i>(U.S.\$ in thousands)</i> | |
| Net gain in redemption and sale of securities..... | 7,072.0 | 26,495.5 | (19,423.5) (73.3)% |
| Net gain (loss) in investment valuations ⁽¹⁾ | (123.5) | (2,313.1) | 2,189.6 (94.7)% |
| Insurance premiums, net..... | 4,547.9 | 3,428.1 | 1,119.8 32.7% |
| Trust and brokerage services..... | 84.3 | 129.5 | (45.2) (34.9)% |
| Others (including non-financial transactions)..... | 3,446.4 | 2,049.3 | 1,397.1 68.2% |
| Total other income, net..... | 15,027.1 | 29,789.3 | (14,762.2) (49.6)% |

(1) Amounts given at mark-to-market values.

Other income decreased 49.6% to U.S.\$15.0 million in 2014 from U.S.\$29.8 million in 2013. This decrease was primarily due to a decrease in gains in the redemption and sales of securities held for investment resulting from a one-time sale of a securities available-for-sale in the amount of U.S.\$21.0 million in 2013. Additionally, the increase in our insurance premiums in 2014 was primarily due to an increase in the premiums collected from insurance policies issued to our retail clients, which positively impacted the premiums we received during that year.

Net loss in investment valuation decreased in 2014 compared to 2013 primarily due to a write-down of U.S.\$2.2 million from a structured note investment default in 2013. Other non-financial transactions increased in 2014 due to an increase in insurance rebates and the overall volume of non-financial transactions.

Total Income, Net

Total income, net represents the sum of net interest and commissions income after allowances for loan losses and other income. As a result of the factors detailed above, our total income net increased 1.5% in 2014 to U.S.\$154.7 million from U.S.\$152.4 million in 2013.

General and Administrative Expenses

The following table sets forth the components of our general and administrative expenses for the years ended June 30, 2014 and 2013.

| | For the years ended June 30, | | Change |
|---|-------------------------------------|------------------------------|------------------------------|
| | 2014 | 2013 | |
| | | <i>(U.S.\$ in thousands)</i> | <i>(U.S.\$ in thousands)</i> |
| Salaries and employee benefits..... | 36,725.4 | 31,117.5 | 5,607.9 |
| Fees and professional services..... | 4,505.9 | 4,112.6 | 393.3 |
| Depreciation and amortization..... | 6,767.3 | 5,968.9 | 798.4 |
| Advertising..... | 4,032.4 | 3,904.7 | 127.7 |
| Maintenance and repairs..... | 5,146.0 | 4,509.6 | 636.4 |
| Rentals | 2,689.9 | 2,295.6 | 394.3 |
| Communications and mail..... | 1,308.3 | 1,247.7 | 60.6 |
| Office supplies | 824.2 | 878.5 | (54.3) |
| Insurance | 4,199.5 | 3,924.6 | 274.9 |
| Security expenses | 1,519.7 | 1,311.1 | 208.6 |
| Other taxes ⁽¹⁾ | 3,259.4 | 3,042.1 | 217.3 |
| Others ⁽²⁾ | 9,194.3 | 8,806.8 | 387.5 |
| Total general and administrative expenses | 80,172.5 | 71,119.7 | 9,052.8 |
| | | | 12.7% |

(1) Includes ITBMS (Impuesto de Transferencia de Bienes Muebles y Servicios) and other municipal taxes.

(2) Includes provisions for rewards on credit cards, debit card costs, fraud provisions and other employees' medical expenses.

Our general and administrative expenses increased 12.7% to U.S.\$80.2 million in 2014 from U.S.\$71.1 million in 2013. This increase was primarily due to increases in salaries and the overall expansion of our activities and business.

Profit before Income Tax

Profit before income tax represents the difference between total income, net and general and administrative expenses. As a result of the factors discussed above, our profits before income decreased 8.3% to U.S.\$74.5 million in 2014 from U.S.\$81.3 million in 2013.

Income Tax

We are subject to Panamanian income tax and must calculate our income tax expense on a consolidated basis. As of June 30, 2014, the applicable corporate income tax rate in Panama was 25.0% of taxable income. Our net income tax is calculated as the difference between current income tax and deferred income tax. Current income

tax is calculated on the basis of an effective tax rate modified from time to time by the Panamanian government. Our income tax expense decreased to U.S.\$8.6 million in 2014 from U.S.\$9.7 million in 2013. This decrease was primarily due to a change of U.S.\$14.8 million or 49.6% in our other income as a result of nonrecurring gains of \$21.0 million reported in 2013 as an extraordinary gain in the sale of investments..

Results of Operations for the Year Ended June 30, 2013 Compared to the Year Ended June 30, 2012

The following table sets forth the principal components of our net income for the years ended June 30, 2013 and 2012.

| | For the years ended June 30, | | Change |
|---|-------------------------------------|-----------------------|-----------------------|
| | 2013 | 2012 | |
| | (U.S.\$ in thousands) | (U.S.\$ in thousands) | % |
| Interest and Commissions Income..... | 236,914.8 | 213,815.9 | 23,098.9 10.8% |
| Interest and Commissions Expenses..... | 105,827.6 | 90,099.6 | 15,728.0 17.5% |
| Net Interest and Commissions Income before Allowances for Loan Losses | 131,087.2 | 123,716.3 | 7,370.9 6.0% |
| Allowance for loan losses..... | 8,499.9 | 15,575.0 | (7,075.1) (45.4)% |
| Net Interest and Commissions Income after Allowances for Loan Losses | 122,587.2 | 108,141.3 | 14,445.9 13.4% |
| Total other income, net..... | 29,789.3 | 10,510.1 | 19,279.2 183.4% |
| Total income, net..... | 152,376.5 | 118,651.3 | 33,725.1 28.4% |
| General and administrative expenses..... | 71,119.7 | 63,823.2 | 7,296.5 11.4% |
| Profits before income tax | 81,256.8 | 54,828.1 | 26,428.6 48.2% |
| Net income tax | 9,720.2 | 4,476.5 | 5,243.7 117.1% |
| Net Income..... | 71,536.6 | 50,351.6 | 21,184.9 42.1% |

In 2013, our net income increased 42.14% to U.S.\$71.5 million from U.S.\$50.4 million in 2012. This increase was primarily due to an increase of 17.2% in our loan balance for the fiscal year ended June 30, 2013, which, in turn, resulted in a 10.8% increase in our interest and commissions income. The increase in loan volumes was experienced across all segments of our loan portfolios, including consumer, commercial, agricultural, secured by pledge, overdrafts, industrial, construction, leasing and factoring. Our provisions expense for possible loan losses decreased mainly as a result of our decision to stabilize our balance of allowance for loan losses in 2013, since the delinquency projections of the portfolio have dropped consistently.

The increase in net income during the fiscal year ended June 30, 2013 was also due to a 10.8% increase of our interest and commissions income and to a nonrecurring gain on sale of securities available-for-sale of U.S.\$21.0 million. The increase in net income was offset by a 11.4% increase in general and administrative expenses that resulted from the expansion of our activities and business. However, our overall operational efficiency (calculated as the ratio of general and administrative expenses to net operating revenue, the latter being defined as total income, net, before allowance for loan losses) improved to 44.2% in 2013 from 47.5% in 2012.

Interest and Commissions Income

The following table sets forth the principal components of our net interest and commissions income for the years ended June 30, 2013 and 2012.

| | For the years ended June 30, | | (U.S.\$ in thousands) | Change |
|--|------------------------------|------------------|-----------------------|--------------|
| | 2013 | 2012 | | |
| Interest and commissions income | | | | |
| Interest income | | | | |
| Interest earned on loans..... | 187,148.0 | 164,917.0 | 22,231.0 | 13.5% |
| Interest earned on deposits | 1,332.1 | 1,427.7 | (95.0) | (6.7)% |
| Interest earned on investments | 19,234.4 | 21,435.6 | (2,201.2) | (10.3)% |
| Total interest income..... | 207,714.6 | 187,780.3 | 19,934.3 | 10.6% |
| Commissions income | | | | |
| Income on loans | 16,562.8 | 14,378.6 | 2,184.2 | 15.2% |
| Letters of credit | 2,158.2 | 3,130.1 | (972.0) | (31.1)% |
| Others ⁽¹⁾ | 10,479.2 | 8,526.9 | 1,952.4 | 22.9% |
| Total commissions income..... | 29,200.3 | 26,035.6 | 3,164.6 | 12.2% |
| Total Interest and Commissions Income | 236,914.8 | 213,815.9 | 23,098.9 | 10.8% |

(1) Includes demand and savings deposits commissions, teller and ATM commissions, transfers, automated clearinghouse fees, legal fees, certified check fees and treasury fees, among others.

In 2013, our interest and commissions income increased 10.8% to U.S.\$236.9 million from U.S.\$213.8 million in 2012. This increase was primarily due to an increase of the loan volumes to U.S.\$3.0 billion in 2013 from U.S.\$2.5 billion in 2012. Commissions earned on loans increased 15.2% to U.S.\$16.6 million in 2013 from U.S.\$14.4 million in 2012 as a result of the increase in loan volumes.

Interest resulting from investments in securities decreased to U.S.\$19.2 million in 2013 from U.S.\$21.4 million in 2012 due to a decrease of the average volumes of investments in securities, which totaled U.S.\$357.3 million in 2013 as compared to U.S.\$399.6 million in 2012. This decrease was also impacted by lower yields resulting from a decrease in market rates experienced during 2013, reaching a 6.15% average yield in 2013 as compared to a 6.38% average yield in 2012.

In December 2012, we decided to reclassify our 100% held-to-maturity investment portfolio into available-for-sale. In June 2013, our average yield on our available-for-sale portfolio was 5.4% per annum.

Interest and Commissions Expense

The following table sets forth the principal components of our net interest and commissions expense for the years ended June 30, 2013 and 2012.

| | For the years ended June 30, | | (U.S.\$ in thousands) | Change |
|--|------------------------------|-----------------|-----------------------|--------------|
| | 2013 | 2012 | | |
| Interest and Commissions expense | | | | |
| Expenses on deposits..... | 66,186.4 | 61,733.5 | 4,452.8 | 7.2% |
| Expenses on borrowed funds and repurchase agreements | 11,964.6 | 10,612.9 | 1,351.7 | 12.7% |
| Expenses on commercial paper and corporate bonds issued ⁽¹⁾ | 22,505.5 | 12,929.1 | 9,576.4 | 74.1% |
| Total interest expense | 100,656.5 | 85,275.5 | 15,380.9 | 18.0% |
| Commissions expense ⁽²⁾ | 5,171.2 | 4,824.1 | 347.1 | 7.2% |
| Total interest and commissions expense | 105,827.7 | 90,099.6 | 15,728.0 | 17.5% |

(1) Includes personal installment loan fees, fees paid for branding, clearing and settlement fees, debit card and electronic payment fees, borrowing fees to other banks, correspondent bank fees, and discount and collection services.

(2) Includes expenses of convertible and subordinated bonds.

In 2013, our net interest and commission expense increased 17.5% to U.S.\$105.8 million from U.S.\$90.1 million in 2012. This increase was primarily due to an increase of 74.1% on interest expense related to corporate bonds, as the total amount of corporate bonds increased to U.S.\$325.1 million in 2013 from U.S.\$121.3 million in 2012.

Net Interest and Commissions Income before Allowances for Loan Losses

Net interest and commissions income before allowances for loan losses represents the difference between interest and commissions income and interest and commissions expense. As a result of the factors discussed above, our net interest and commissions income before allowances for loan losses increased 6.0% in 2013 compared to 2012, from U.S.\$123.7 million to U.S.\$131.1 million.

Allowance for Loan Losses

The following table sets forth the movements in our provisions for loan losses for the years ended June 30, 2013 and 2012.

| | For the years ended June 30, | | Change |
|--|-------------------------------------|------------------------------|---------------------|
| | 2013 | 2012 | |
| | <i>(U.S.\$ in thousands)</i> | <i>(U.S.\$ in thousands)</i> | |
| Balance at the beginning of the year..... | 38,996.2 | 31,123.0 | 7873.2 25.3% |
| Provisions charged to expenses | 8,500.0 | 15,575.0 | (7,075.0) (45.4)% |
| Recoveries..... | 997.9 | 928.5 | 69.4 7.5% |
| Write-off loans | (6,785.6) | (8,630.3) | 1,844.7 (21.4)% |
| Balance at the end of the year..... | 41,708.4 | 38,996.2 | 2,712.3 7.0% |

Provisions charged to expenses for loan losses decreased 45.4% to U.S.\$8.5 million in 2013 from U.S.\$15.6 million in 2012. This decrease was mainly due to our decision to stabilize our balance of allowance for loan losses, since the delinquency projections of the loan portfolio have dropped consistently. As of June 30, 2013, allowance for loan losses as a percentage of total loans past due 90 days or more decreased to 179.4% from 202.0% as of June 30, 2012.

Net Interest and Commissions Income after Allowances for Loan Losses

Net interest and commissions income after allowances for loan losses represents the gross interest and commissions income less provisions for possible loan losses. As a result of the factors discussed above, our net interest and commissions income after allowances for loan losses increased by 13.4% to U.S.\$122.6 million in 2013 compared to U.S.\$108.1 million in 2012.

Total Other Income, Net

The following table sets forth the components of our other income for the years ended June 30, 2013 and 2012.

| | For the years ended June 30, | | Change |
|---|-------------------------------------|------------------------------|------------------------|
| | 2013 | 2012 | |
| | <i>(U.S.\$ in thousands)</i> | <i>(U.S.\$ in thousands)</i> | |
| Net gain in redemption and sale of securities | 26,495.5 | 3,438.9 | 23,056.6 670.5% |
| Net gain (loss) in investment valuations ⁽¹⁾ | (2,313.1) | (168.5) | 2,144.6 (1272.6)% |
| Insurance premiums, net..... | 3,428.1 | 3,105.1 | 323.0 10.4% |
| Trust and brokerage services | 129.5 | 76.4 | 53.1 69.5% |
| Others (including non-financial transactions)..... | 2,049.3 | 4,058.3 | (2,009.0) (49.5)% |
| Total other income, net | 29,789.3 | 10,510.1 | 19,279.2 183.4% |

(1) Amounts given at mark-to-market values.

Total other income, net increased 183.4% to U.S.\$29.8 million in 2013 from U.S.\$10.5 million in 2012. This increase was primarily due to an increase in gains in the redemption and sales of securities held for investment resulting from a one-time sale of a securities available-for-sale in the amount of U.S.\$21.0 million in 2013. Additionally, the increase in the insurance premiums in 2013 was primarily due to an increase in the premiums collected from insurance bonds arising from factoring transactions, which impacted the premiums we received during that year.

Net loss in investment valuation increased in 2013 compared to 2012, primarily due to a write-down of U.S.\$2.2 million from a structured note investment default. Other non-financial transactions decreased in 2013 due to an increase in insurance rebates and the overall volume of non-financial transactions.

Total Income, Net

Total income, net represents the sum of net interest and commissions income after allowances and other income. As a result of the factors detailed above, our total income net increased 28.4% in 2013 to U.S.\$152.4 million from U.S.\$118.7 million in 2012.

General and Administrative Expenses

The following table sets forth the components of our general and administrative expenses for the years ended June 30, 2013 and 2012.

| | For the years ended June 30, | | Change |
|---|-------------------------------------|------------------------------|----------------------|
| | 2013 | 2012 | |
| | | <i>(U.S.\$ in thousands)</i> | |
| Salaries and employee benefits..... | 31,117.5 | 30,243.7 | 873.8 2.9% |
| Fees and professional services..... | 4,112.6 | 3,139.1 | 973.5 31.0% |
| Depreciation and amortization..... | 5,968.9 | 5,357.1 | 611.8 11.4% |
| Advertising..... | 3,904.7 | 2,920.8 | 983.8 33.7% |
| Maintenance and repairs..... | 4,509.6 | 3,603.4 | 906.2 25.1% |
| Rentals | 2,295.6 | 1,677.9 | 617.7 36.8% |
| Communications and mail..... | 1,247.7 | 1,100.1 | 147.6 13.4% |
| Office supplies | 878.5 | 778.5 | 99.9 12.8% |
| Insurance | 3,924.6 | 3,648.4 | 276.2 7.6% |
| Security expenses | 1,311.1 | 1,060.8 | 250.3 23.6% |
| Other taxes ⁽¹⁾ | 3,042.1 | 2,560.5 | 481.6 18.8% |
| Others ⁽²⁾ | 8,806.8 | 7,732.6 | 1,074.2 13.9% |
| Total general and administrative expenses..... | 71,119.7 | 63,823.2 | 7,296.5 11.4% |

(1) Includes ITBMS (*Impuesto de Transferencia de Bienes Muebles y Servicios*) and other municipal taxes.

(2) Includes provisions for rewards on credit cards, debit card costs, fraud provisions and other employees' medical expenses.

Our general and administrative expenses increased 11.4% to U.S.\$71.1 million in 2013 from U.S.\$63.8 million in 2012. This increase was primarily due to increases in salaries, advertising, fees and professional services and the overall expansion of our activities and business.

Profit before Income Tax

Profit before income tax represents the difference between total income, net and general and administrative expenses. As a result of the factors discussed above, our profits before income increased 48.2% to U.S.\$81.3 million in 2013 from U.S.\$54.8 million in 2012.

Income Tax

We are subject to Panamanian income tax and must calculate our income tax expense on a consolidated basis. As of June 30, 2013, the applicable corporate income tax rate in Panama was 27.5% of taxable income. Our net income tax is calculated as the difference between current income tax and deferred income tax. Current income tax is calculated on the basis of an effective tax rate modified from time to time by the Panamanian government. Our income tax expense increased to U.S.\$9.7 million in 2013 from U.S.\$4.5 million in 2012. This increase was primarily due to an increase of our Net Operating Income resulting from the expansion of our business and activities.

Liquidity and Capital Resources

Sources of Funds

Our primary sources of funds have traditionally consisted of deposits and other obligations, which amounted to U.S.\$4.0 billion at June 30, 2014. As of June 30, 2014, total deposits amounted to U.S.\$2.9 billion of which 10.8% were deposits of our top ten largest clients and the remaining 89.2% were deposits of our other clients. Our deposits include demand deposits, time deposits, savings deposits and interbank time deposits. We also finance our operations through other sources of funds, which include securities sold under repurchase agreements, borrowed funds, and securities and obligations issued. Funding from customer deposits amounted to 95.7% of total deposits as of the fiscal year ended June 30, 2014. Customer deposits provide us with a low-cost, diverse and stable source of funding.

The following table sets forth our deposits and other sources of funds as of June 30, 2014, 2013 and 2012.

| | As of June 30, | | | Change 2014/2013 | |
|--|--------------------|--------------------|--------------------|-----------------------|--------------|
| | 2014 | 2013 | 2012 | (U.S.\$ in thousands) | % |
| <i>Deposits</i> | | | | | |
| Demand deposits | 461,767.9 | 389,295.8 | 313,122.5 | 72,472.0 | 18.6% |
| Time deposits..... | 1,701,972.7 | 1,650,006.4 | 1,444,300.2 | 51,966.2 | 3.1% |
| Savings deposits..... | 588,245.4 | 488,682.1 | 452,306.0 | 99,563.3 | 20.4% |
| Interbank time deposits | 122,341.5 | 106,903.2 | 85,646.7 | 15,438.3 | 14.4% |
| Total Deposits | 2,874,327.5 | 2,634,887.6 | 2,295,375.4 | 239,439.9 | 9.1% |
| <i>Other Sources of Funds</i> | | | | | |
| Securities sold under repurchase agreements | 635.9 | — | 29,915.8 | 635.9 | 100.0% |
| Borrowed funds | 452,263.5 | 290,113.3 | 436,774.5 | 162,150.2 | 55.9% |
| Securities and Obligations Issued ⁽¹⁾ | 675,434.2 | 484,197.1 | 306,702.0 | 191,237.1 | 39.5% |
| Total other sources of funds | 1,128,333.5 | 774,310.4 | 773,392.3 | 354,023.1 | 45.7% |
| Total Sources of funds..... | 4,002,661.0 | 3,409,198.0 | 3,068,767.7 | 593,463.0 | 17.4% |

(1) Includes commercial paper, corporate bonds, convertible bonds and subordinated bonds.

Demand Deposits

We receive significant amount of funding from demand deposits, which consist primarily of checking account deposits made by our foreign and domestic corporate and retail banking customers. Our portfolio of demand deposits totaled U.S.\$462 million, U.S.\$389 million and U.S.\$313 million as of June 30, 2014, 2013 and 2012, respectively.

Time Deposits

Our primary funding source is from time deposits, which includes certificates of deposit issued to foreign and domestic individuals and corporate and institutional clients. Our portfolio of foreign and domestic time deposits totaled U.S.\$1.7 billion, U.S.\$1.6 billion and U.S.\$1.4 billion as of June 30, 2014, 2013 and 2012, respectively.

Savings Deposits

Our funding from savings deposits consists primarily of interest-bearing savings account deposits from retail and foreign and domestic corporate banking clients. Our portfolio of savings deposits totaled U.S.\$588 million, U.S.\$489 million and U.S.\$452 million as of June 30, 2014, 2013 and 2012, respectively.

Interbank Time Deposits

Our funding from interbank time deposits consists primarily of interest-bearing deposits from local and foreign banks with maturity of up to 30 days. Our portfolio of interbank deposits totaled U.S.\$122 million, U.S.\$107 million and U.S.\$86 million as of June 30, 2014, 2013 and 2012, respectively.

Securities Sold under Repurchase Agreements

We sold securities under repurchase agreements for U.S.\$0.6 million during the year ended June 30, 2014. No sales of securities under repurchase agreements were made by us during 2013. We sold securities under repurchase agreements for U.S.\$29.9 million during the year ended June 30, 2012.

Borrowed Funds

We also obtain funding through borrowings. We had borrowings of U.S.\$452 million, U.S.\$290 million and U.S.\$437 million as of June 30, 2014, 2013 and 2012, respectively.

The following table sets forth a summary of our borrowed funds as of June 30, 2014, 2013 and 2012.

| Type of obligation | As of June 30, | | | Change 2014/2013 | |
|---|-----------------------|------------------|------------------|------------------------------|------------------------------|
| | 2014 | 2013 | 2012 | <i>(U.S.\$ in thousands)</i> | <i>(U.S.\$ in thousands)</i> |
| With other banks..... | 153,702.0 | 93,039.0 | 84,585.0 | 60,663.0 | 65.2% |
| With multilateral financial institutions and others | 151,095.0 | 128,036.0 | 262,190.0 | 23,059.0 | 18.0% |
| With foreign banks | 112,641.0 | 9,007.0 | 15,000.0 | 103,634.0 | 1,150.5% |
| With governmental financial institutions | 34,825.0 | 60,032.0 | 75,000.0 | (25,207.0) | (42.0)% |
| Total..... | 452,263.0 | 290,113.0 | 436,774.0 | 162,150.0 | (55.9)% |

Funds from Issuances of Securities, Bonds and Obligations

We obtain funding from the proceeds of issuances of debt instruments and commercial paper. The proceeds of these issuances have been used to expand our loan portfolio. As of June 30, 2014, we had U.S.\$675.43 million of securities issued composed of commercial paper, corporate bonds, convertible bonds and subordinated bonds with varying interest rates from 3.00% to 6.75% and varying maturities from 1 to 60 years.

The following table presents a breakdown of our outstanding principal amount of securities issuances as of June 30, 2014, 2013 and 2012.

| | As of June 30, | | | Change 2014/2013 | |
|---|-----------------------|------------------|------------------|-----------------------|--------------|
| | 2014 | 2013 | 2012 | | |
| | (U.S.\$ in thousands) | | | (U.S.\$ in thousands) | % |
| Securities Placed | | | | | |
| Commercial paper ⁽¹⁾ | 59,871.0 | 59,074.0 | 85,340.0 | 797.0 | 1.3% |
| Corporate bonds ⁽²⁾ | 516,040.6 | 325,103.1 | 121,342.0 | 190,937.5 | 58.7% |
| Convertible bonds ⁽³⁾ | 10,000.0 | 10,000.0 | 10,000.0 | — | — |
| Subordinated bonds ⁽⁴⁾ | 89,522.5 | 90,020.0 | 90,020.0 | (497.6) | (0.6%) |
| Total issuance outstanding | 675,434.2 | 484,197.1 | 306,702.0 | 191,237.0 | 39.5% |

(1) Our commercial paper has varying interest rates from 3.00% to 3.25% and short-term maturities.

(2) Our corporate bonds have fixed and variable interest rates from 3.00% to 6.00% and varying maturities from March 2014 to April 2019.

(3) Our convertible bonds have an interest rate of 5.00% and mature in 2014.

(4) Our subordinated bonds have an interest rate of 6.75%.

Regulatory Capital

The following table sets forth our regulatory capital for the years ended June 30, 2014, 2013 and 2012.

| | As of June 30, | | | Change 2014/2013 | |
|---|--|------------------|------------------|-----------------------|---------------|
| | 2014 | 2013 | 2012 | | |
| | (U.S.\$ in thousands except percentages) | | | (U.S.\$ in thousands) | % |
| Primary Capital (Tier 1) | | | | | |
| Common shares..... | 79,184.4 | 78,202.7 | 78,202.7 | 981.7 | 1.3 |
| Retained earnings..... | 237,559.4 | 188,102.1 | 134,274.2 | 49,457.3 | 26.2% |
| Less: goodwill..... | (8355.2) | (8355.2) | (8,355.2) | — | — |
| Capital reserve..... | 35,871.0 | 29,553.5 | 21,185.0 | 6,317.5 | 21.3% |
| Total Primary Capital | 344,259.6 | 287,503.1 | 225,306.7 | 56,756.5 | 19.7% |
| Secondary Capital (Tier 2) | | | | | |
| Subordinated debt convertible into common shares..... | 10,000.0 | 10,000.0 | 10,000.0 | — | — |
| Subordinated debt..... | 89,522.6 | 90,020.0 | 90,020.0 | (497.4) | (0.6%) |
| Allowance for foreclosed assets | 2.1 | 8.6 | 79.3 | (6.4) | (74.4%) |
| Allowance for possible loan losses..... | 12,981.7 | 14,219.1 | 15,489.1 | (1,237.4) | (8.7%) |
| Total Secondary Capital | 112,506.5 | 114,247.6 | 115,588.4 | (1,741.0) | (1.5)% |
| Total regulatory capital | 456,766.2 | 401,750.7 | 340,895.1 | 55,015.5 | 13.7% |

Risk-weighted assets

| | | | | | |
|--|--------------------|--------------------|--------------------|------------------|--------------|
| Cash and deposits in banks..... | 51,109.5 | 75,905.6 | 57,732.0 | (24,796.2) | (32.6%) |
| Investments in securities | 256,829.7 | 142,324.9 | 118,926.6 | 114,504.8 | 80.4% |
| Loans..... | 2,689,242.5 | 2,267,766.0 | 1,871,645.5 | 421,476.4 | 18.6% |
| Property, furniture, equipment and improvements..... | 55,893.8 | 48,736.3 | 41,621.4 | 7,157.4 | 14.7% |
| Other assets | 113,734.3 | 97,427.2 | 89,239.0 | 16,307.0 | 16.7% |
| Off-balance operations | 116,987.0 | 105,383.7 | 112,570.0 | 11,603.3 | 11.0% |
| Allowance for loan losses..... | (33,196.4) | (27,489.4) | (23,507.2) | (5,707.0) | 20.7% |
| Total risk-weighted assets | 3,250,600.4 | 2,710,054.3 | 2,268,227.3 | 540,546.0 | 19.9% |

Capital Adequacy

| | | | | | |
|---|--------------|--------------|--------------|----------------|---------------|
| Total regulatory capital over risk-weighted assets | 14.0% | 14.8% | 15.0% | (0.80)% | (5.4)% |
| Total Tier 1 over risk-weighted assets | 10.6% | 10.6% | 9.93% | — | — |
| Total Tier 2 over risk-weighted assets | 3.5% | 4.3% | 5.1% | — | — |

Banking regulations on capital adequacy in Panama take into account the recommendations of the Basel Committee. Basel II has been partially implemented in Panama through the guidelines and recommendations issued from time to time by the Superintendency of Banks.

As provided by the Banking Law, Panamanian financial entities authorized to operate under a general banking license are required to maintain a minimum paid-in capital of U.S.\$10.0 million and shareholders' equity of at least 8.0% of their risk-weighted assets, including off-balance sheet financial instruments. Under this requirement, the value of the assets is calculated without taking into consideration the provisions for allowances in accordance with the regulations of the Superintendency of Banks. As such, risk-weighted assets are the sum of cash and deposits in banks, investments in securities, loans, property, furniture, equipment and improvements, other assets, off-balance operations, and allowance for investments and loan losses.

Under Panamanian law, we must calculate our capital adequacy ratio on a quarterly basis. The following items are deducted from the capital adequacy calculation: non-consolidated capital assigned to foreign banks, non-consolidated paid-in capital of our subsidiaries, non-banking subsidiaries paid-in capital and assets related to expenses.

Liquidity Risk

Liquidity risk represents the potential for loss as a result of limitations on our ability to adjust future cash flows to meet the needs of depositors and borrowers and to fund operations on a timely, cost-effective basis.

Liquidity risk is measured by using the Liquidity Gap or Financial Mismatch methods. Under these methods, simulations and stress tests are performed based on the difficulties caused by the lack of liquidity, such as unexpected withdrawals of funds contributed by creditors or deposited by clients, impairment in the quality of the loan portfolio, volatility of resources obtained or any activity that could negatively impact our liquidity.

Our assets and liability committee is in charge of periodically monitoring the availability of liquid funds, given our exposure to daily requirements, current accounts, time deposits at maturity and loan disbursements. As provided by the Banking Law, Panamanian banks are required to maintain a minimum balance of liquid assets of no less than 30.0% over the total amount of net deposits received from clients or other banks. We regularly maintain a greater balance of liquid assets than that required by the Superintendency of Banks. As of June 30, 2014, June 30, 2013 and June 30, 2012, our balance of liquid assets over net amount of deposits from clients was 39.6%, 49.1% and 48.0%, respectively.

Our ability to replace interest-bearing deposits at their maturity is a key factor in determining liquidity requirements. Our principal source of funding is deposits. We have developed a diversified and stable deposit base in each of our main business segments. Our deposit funding strategy has focused on certain core products, namely, demand deposits, savings deposits and time deposits.

We believe that funds from our deposit-taking operations generally will continue to meet our liquidity needs for the foreseeable future. To a lesser extent, we also fund our operations through other types of deposits (including foreign and domestic deposits with other financial institutions), securities and bond issuances, and short-term and long-term borrowings.

Interest Rate Risk

A key component of our assets and liabilities management policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest revenue due to the maturity or repricing characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets and liabilities matures or reprices in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A positive gap position denotes asset sensitivity and means that an increase in interest rates would have a positive

effect on net financial income (interest and commissions income), whereas a decrease in interest rates would have a negative effect on the net financial income (interest and commissions income).

Our interest rate sensitivity strategy takes into account not only the rates of return and the underlying degree of risk, but also liquidity requirements, including minimum regulatory cash reserves, regulatory liquidity ratios, withdrawal and maturity deposits, capital costs and additional demand for funds. Our compliance with regulatory limits for mismatches and positions is monitored by our assets and liability committee and is managed within established internal limits proposed by our market risk division and approved by our assets and liability committee.

In addition, as part of our interest rate risk strategy, subject to market conditions, we enter, from time to time, into hedging agreements to hedge any interest rate risk.

The following table presents the interest-earning assets and interest-bearing liabilities by the earlier of contractual repricing or maturity dates, whichever occurs first, as of June 30, 2014.

| | Remaining Maturity as of June 30, 2014 | | | | | |
|--|--|--------------------|------------------|-------------------|-----------------------|--------------------|
| | (U.S.\$ in thousands except percentages) | | | | | |
| | Up to 6 months | 6 months to 1 year | 1 to 5 years | More than 5 years | Without interest rate | Total |
| Interest-earning assets (Interest Income) | | | | | | |
| Interest-earning deposits in commercial banks..... | 245,373.5 | 10,174.0 | — | — | 169,049.7 | 424,597.2 |
| Securities purchased under resale agreements | 1,000.0 | 2,000.0 | — | — | — | 3,000.0 |
| Securities available-for-sale | 49,930.7 | 11,316.8 | 86,893.6 | 242,186.7 | 15,396.8 | 405,724.7 |
| Gross loans | 2,992,998.1 | 13,044.8 | 113,342.7 | 415,269.8 | — | 3,534,655.6 |
| Total interest-earning assets | 3,289,302.4 | 36,535.7 | 200,236.3 | 657,456.5 | 184,446.5 | 4,367,977.4 |
| % of total | 75.4% | 0.8% | 4.6% | 15.0% | 4.2% | 100.0% |
| Interest-bearing liabilities (Interest Expense) | | | | | | |
| Deposits | 1,158,676.1 | 417,671.5 | 788,593.1 | 47,618.9 | 461,767.8 | 2,874,327.5 |
| Securities sold under repurchase agreements | 635.8 | — | — | — | — | 635.8 |
| Borrowed funds..... | 452,263.5 | — | — | — | — | 452,263.5 |
| Commercial paper | 20,000.0 | 39,871.0 | — | — | — | 59,871.0 |
| Corporate bonds payable | 373,430.6 | 10,000.0 | 132,610.0 | — | — | 516,040.6 |
| Convertible bonds | 10,000.0 | — | — | — | — | 10,000.0 |
| Subordinated bonds | — | — | — | 89,522.6 | — | 89,522.6 |
| Total interest-bearing liabilities | 2,015,006.0 | 467,542.5 | 921,203.1 | 137,141.4 | 461,767.8 | 4,002,661.0 |
| % of total | 50.4% | 11.7% | 23.0% | 3.4% | 11.5% | 100.0% |

Commitments and Contractual Obligations

We enter into various commitments and contractual obligations that may require future cash payments. The following table summarizes our outstanding commitments and contractual obligations as of June 30, 2014 and 2013.

| | As of June 30, 2014 | As of June 30, 2013 |
|---|------------------------|------------------------|
| | (U.S.\$ in thousands) | |
| Citigroup Trust Credit Facility | 24,660.3 | 31,517.9 |
| Deutsche Investitions Und Entwicklungsgesellschaft MBH Credit Facility..... | 18,500.9 | 21,875.0 |
| Inter-American Development Bank Credit Facility | — | 7,142.9 |
| Corporación Andina de Fomento (CAF) Credit Facility..... | 27,933.3 | 17,500.0 |
| Financial Stimulus Program (PEF) Credit Facility | 34,825.9 | 60,032.2 |
| Citibank Syndicated Loan..... | 102,640.3 | — |
| Ordinary loans..... | 243,702.7 | 152,045.3 |
| Total | 452,263.4 | 290,113.3 |

Certain loan agreements include standard clauses requiring us to comply with financial ratios, use of funds criteria and other administrative matters. In our management's opinion, such standard clauses do not limit our normal operation and are substantially fulfilled in the application of standard international banking practices.

Risk Management

We have specific risk management policies and procedures designated to identify and manage the following risks:

Market Risk. Defined as the risk of loss that the value of a financial asset may be reduced due to volatility in interest rates, foreign exchange rates, stock prices and other financial variables.

Operational Risk. Defined as the risk of loss resulting from inadequate or erroneous internal processes, personnel mistakes and system errors, or unexpected external events, including risks related to legal management, and other external factors that are not related to credit, market or liquidity risks, such as those arising from legal or regulatory requirements and generally accepted corporate standards.

Credit Risk. Defined as the risk of loss due to a client's or a counterparty's failure to repay debt after it becomes due and payable.

Our Board of Directors is responsible for establishing and overseeing the risk management policies periodically. We have established a set of committees in charge of monitoring the different risks to which we are exposed. These committees include the audit committee, the assets and liabilities committee, the investment committee, the risk committee, and the credit committee.

In addition, we are subject to the regulations of the National Securities Commissions of Panama and the Superintendency of Banks in all matters related to liquidity, capitalization risks and risk management, among others.

Market Risk Management

The objective of market risk management is to manage and control the risks to which we are exposed so that they are kept at acceptable levels. Risk management policies provide specific limits depending on the financial activities in which we are involved. These policies also require, unless otherwise authorized by the Board of Directors, that substantially all of our assets and liabilities be denominated in United States Dollars or Balboas.

We manage the market risks associated with financial instruments available-for-sale and held to maturity through regular reports made to the assets and liability and risk committees. These committees analyze the volatility in the prices of each financial instrument and set limits to maintain a healthy portfolio.

Our assets and liability management activities include an ongoing analysis of our assets and liabilities by maturity and interest rate. For additional information on how we control and analyze our exposure to interest rate risk, see "*Interest Rate Risk*."

Operational Risk Management

Our operational and risk management policies seek to reduce the risk of financial losses and damage of our reputation in the market. Our operational and risk management policies have been prepared and approved by our risk committee, our general management and the audit committee of the Board of Directors.

The operational and risk management policies have been designed to segregate duties among process owners, control areas and staff areas in charge of compliance of policies and procedures. Our different business units take an active role in measuring, controlling and monitoring the day-to-day operational risks to which we are exposed.

We have adopted a methodology of business process assessments based on risk. Under this methodology, we identify the areas and key processes related to our strategic objectives, map the cycle process and establish mitigating control mechanisms to deal with risks associated with our business. The risk assessment methodology we set forth seeks to add maximum fair value to each of our activities by decreasing the possibilities of failure and loss. Our internal audit department verifies and monitors compliance with this risk methodology on an ongoing basis.

We have made significant investments in technology to increase efficiency and reduce operational risks. Security policies have been reinforced, and policies for technology risk management have been put in place. We are also in the process of putting into place a contingency plan to provide for a back-up of all material information in case of a system failure.

Credit Risk Management

We analyze the credit risk of the client or counterparty prior to entering into any credit systems or acquiring any security. The analysis is made on a consolidated basis taking into account all elements contributing to credit risks, including the applicant's risk, country risk and industry risk. The risks associated with the purchase of securities are also subject to our credit risk management policies.

We have established general policies to manage our credit risks. Credit policies and credit limits are issued and reviewed on an ongoing basis. Changes in market conditions, risks factors, financial conditions and credit availability are some of the factors that are taken into account when establishing the credit risk of a given client or counterparty. All changes in credit policies and credit limits must be approved by the credit committee and our Board of Directors.

Credit limits are determined on the amount and type of the loans made by us. We have established different credit limits and procedures, depending on the type of loan and repayment ability of the applicant.

Corporate Limits

Exposure Limits. We have established a maximum exposure limit of U.S.\$20 million per economic group. These limits are based on our internal policies. The maximum regulatory limit of exposure is 25% of regulatory capital.

Concentration Limits. We have established maximum limits of concentration per activity or industry. These limits are based on capital distribution and the strategy we established for our loan portfolio. We have also limited our exposure by geographical area to specific countries in accordance with strategic plans, investment strategy and country ratings.

Counterparty Maximum Limits. We have established maximum limits for counterparty credit risk. These limits are based on our counterparties credit rating.

Consumer Limits

Exposure Limits. We have established maximum limits to individuals and economic groups to limit our exposure to credit risk. These limits are based on our regulatory capital. The maximum limit of exposure we established is 10% over the total amount of our regulatory capital.

Concentration Limits. We have established maximum limits of concentration for individuals based on their creditworthiness and gross income.

Off-Balance Sheet Arrangements

We have various contractual arrangements that are not recognized as liabilities on our consolidated financial statements but are required to be registered in off-balance sheet accounts. We enter into these off-balance

sheet arrangements to generate fees from guarantees and endorsements, letters of credit and notes offered to customers.

The following table sets forth our off-balance sheet arrangements as of June 30, 2014, 2013 and 2012.

| | As of June 30, | | | Change 2014/2013 | |
|---|-----------------------|------------------|------------------|-----------------------|-------------|
| | 2014 | 2013 | 2012 | | |
| | (U.S.\$ in thousands) | | | (U.S.\$ in thousands) | % |
| Commitments and Contingencies | | | | | |
| Letters of credit..... | 52,567.8 | 71,171.7 | 47,297.5 | (18,603.9) | (26.1%) |
| Guarantees and endorsements | 288,745.7 | 355,157.7 | 309,813.7 | (66,412.0) | (18.7%) |
| Loan commitments | 342,722.1 | 249,691.4 | 231,960.8 | 93,030.6 | 37.2% |
| Lines of credit granted but not used | 137,813.0 | 79,628.3 | 8,818.8 | 58,184.7 | 73.0% |
| Total off-balance sheet accounts | 821,848.6 | 755,649.2 | 597,890.8 | 66,199.4 | 8.8% |

Through our wholly owned subsidiary, Factor Global, Inc., we regularly engage in factoring activities. Our factoring portfolio ranges from small companies with annual sales of less than U.S.\$100,000 to large multinational corporations engaged in infrastructure projects with the government, providing them invoice factoring and reverse factoring, among other services. For additional information on factoring, see “*Business—Factoring*.”

Guarantees and endorsements decreased 18.7% in 2014 compared to 2013, primarily due to a decrease in the factoring surety bonds business.

Off-balance sheet transactions expose us to credit risk in addition to the amounts recognized in the consolidated financial statements. We apply the same credit policies and procedures in making credit commitments and approving financial guarantees such as those used for the granting loans.

Off-balance guarantees have fixed maturity dates, and most of them expire without being drawn upon. Most letters of credit are drawn upon but are payable on demand and, therefore, are paid immediately. Loan commitments represent conditional promises accepted by us upon the occurrence of certain conditions. These commitments generally have a six-month maturity and are mostly used for the disbursements of loans.

Critical Accounting Policies

Pursuant to Executive Decree No. 52 of April 30, 2008 and Decree Law No. 9 of February 26, 1998, as amended by Decree Law No. 2 of February 22, 2008, the Superintendency of Banks is in charge of supervising, inspecting and controlling all banking and financial institutions domiciled in Panama. As a result, all aspects related to the issuance and authorization of banking licenses, minimum capital and liquidity requirements, consolidated supervision, risk assessment, management control, the prevention of money laundering activities, and the preparation and filing of consolidated financial statements, among others, are subject to the supervision of the Superintendency of Banks.

Our consolidated financial statements have been prepared in accordance with IFRS, as modified by prudential regulations issued from time to time by the Superintendency of Banks, that were in force in Panama as of June 30, 2014, 2013 and 2012, respectively.

Certain of the accounting practices we employ, which conform to IFRS, as modified by prudential regulations issued from time to time by the Superintendency of Banks, may differ in certain significant respects from generally accepted accounting principles in other countries. For example, under Panamanian law, we are allowed to make voluntary provisions of loan losses in addition to the minimum requirements imposed by the Superintendency of Banks. These additional provisions are made according to our view on risk and other market conditions.

Significant accounting principles and practices used in the preparation of the consolidated financial statements are described below.

Basis for Presentation and Use of Estimates

We make estimates and assumptions that impact the reported amounts of assets and liabilities. Estimates and assumptions are based on historical data and future expectations believed to be reasonable at the time they are made. Actual results could differ from those estimates. The most significant estimates and assumptions related to the consolidated financial statements correspond to the impairment of loans, the impairment of securities available-for-sale and securities held to maturity.

The consolidated financial statements have been prepared in accordance with the historical cost method, except in the case of securities available-for-sale, which have been accounted at fair value. Under the historical cost method, all components of the consolidated financial statements reflect the original cost or acquisition cost. Under the fair value method, securities available-for-sale are measured at their fair value. The fair value of an investment in securities is generally determined on the quoted market price. If the quoted market price is unavailable, the fair value of the instrument is estimated using models for pricing or technical calculations of discounted cash flows.

Gains or losses arising from changes in the fair value of financial assets available-for-sale are recognized directly in equity until they are discharged as financial assets or impairment is determined. If this occurs, the cumulative gain or loss, previously recognized in equity, is reflected in the income statement.

Our consolidated financial statements have also been prepared in accordance with IFRS, as modified by the prudential regulations issued by the Superintendency of Banks. The most significant modifications impacting IFRS standards relate to reserves. Under IFRS regulations, reserves need to be made on the basis of losses already incurred by a financial institution. By contrast, the prudential regulations issued by the Superintendency of Banks provide that reserves need to be made on the basis of expected losses.

Impairment of Financial Assets

Loans.

Loans receivable are presented as deducted from the allowance for possible loans losses on our consolidated balance sheet. When we determine that a loan is uncollectible, we account for the unrecoverable amount as an allowance for possible loan losses. We credit recoveries of loans previously written off as uncollectible to the reserve account.

The Superintendency of Banks of Panama requires that financial statements presented by banks in Panama include the accounting recognition and presentation of allowance for loan losses based on the prudential rules issued by the regulator. Based on Agreement 6-2000 issued by the Superintendency of Banks we classify loans into five risk categories and determine the minimum amount of allowance for losses on the principal balance as follows:

| <u>Loan categories</u> | <u>Minimum percentages</u> |
|------------------------|----------------------------|
| Normal | 0% |
| Special Mention | 2% |
| Subnormal | 15% |
| Doubtful | 50% |
| Uncollectible | 100% |

In determining the classification of loans in these categories, we consider the quality of the loan and the default provisions, among others. We mainly use default periods to classify consumer and housing loans, but we also use these to classify corporate loans.

Additionally, within 90 days, we adjust the previous classification of past due loans as follows:

| <u>Loan categories</u> | <u>Minimum percentages</u> |
|------------------------|----------------------------|
| Special Mention | 2% up to 14.9% |
| Subnormal | 15% up to 49.9% |
| Doubtful | 50% up to 99.9% |
| Uncollectible | 100% |

When calculating estimated losses, we review the debtor's financial statements, including operating cash flows, the realization value of any collateral, and any other cash flow from co-debtors or guarantors. For the consumer portfolio, we consider a variety of factors, including the debtor's delinquency, the losses that the Bank has historically experienced from comparable debtors and the maturity profile of the portfolio.

In addition, Agreement 6-2000 allows us to create general reserves for loan losses, when we become aware of a deterioration in the value of a group of loans that have defined common features.

As a Panamanian bank we are required to maintain a global reserve for loan losses of at least 1% of our total loan portfolio, less the amount of deposit guarantees that we hold. This global reserve cannot be less than the aggregate amount of the specific and general reserves.

The Superintendency of Banks of Panama may assess the sufficiency of allowance and require us to increase our allowance at any time.

Securities classified as Available-for-Sale.

At the balance sheet date of, we assess whether there is evidence that a financial asset or a group of financial assets is impaired. In the case of equity and debt instruments classified as available-for-sale, we consider a significant or prolonged decline in fair value of the financial asset that is below the aggregate amount of the costs in determining whether or not the financial asset is impaired. If evidence of impairment exists for financial assets available-for-sale, we remove the accumulated loss (measured as the difference between acquisition cost and current fair value, less any impairment loss in the previously recognized financial assets, in profit or loss) from equity and recognized in the accumulated loss in the income statement.

We do not reverse impairment losses on equity instruments recognized in the income statement but we recognize the impairment losses in the equity account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and this increase relates to an event occurring after we recognized the impairment loss in profit or loss, we recognize the impairment loss in the income statement.

For additional information on the accounting criteria used for each of the components of the consolidated financial statements, see "*Consolidated Financial Statements for the year ended June 30, 2014.*"

SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain of our selected statistical information and ratios for the periods indicated. The selected statistical information should be read in conjunction with the information in the consolidated financial statements included herein and the notes thereto appearing elsewhere in this Base Prospectus.

Average Balance Sheets and Income from Interest-Earning Assets and Interest-Bearing Liabilities

The tables below set forth, by currency of denomination, the average quarterly balances and, where applicable, interest earned on interest-earning assets and interest paid on interest-bearing liabilities for the years ended June 30, 2014, 2013 and 2012.

Average Balance Sheets

Assets, Interest and Average Interest Rates

| ASSETS | For the years ended June 30, | | | | | | | | |
|--|------------------------------|--------------------------|----------------------|-----------------|--------------------------|----------------------|-----------------|--------------------------|----------------------|
| | 2014 | | | 2013 | | | 2012 | | |
| | Average Balance | Interest Earned/ Paid | Nominal Average Rate | Average Balance | Interest Earned/ Paid | Nominal Average Rate | Average Balance | Interest Earned/ Paid | Nominal Average Rate |
| <i>Interest-earning assets</i> | | | | | | | | | |
| Interest-earning deposits in commercial banks..... | 299.1 | 1.24 | 0.4% | 280.9 | 1.3 | 0.5% | 267.8 | 1.4 | 0.5% |
| Securities purchased under resale agreements | 4.0 | 0.16 | 3.9% | 2.1 | 0.1 | 6.4% | 2.0 | 0.1 | 5.0% |
| Securities available-for-sale | 348.5 | 17.84 | 5.1% | 357.3 | 19.2 | 5.4% | 142.1 | 5.4 | 3.8% |
| Securities held to maturity..... | — | — | 0.0% | — | — | — | 257.5 | 16.1 | 6.2% |
| Net Loans ⁽¹⁾ | 3,157.4 | 207.7 | 6.6% | 2,739.1 | 187.0 | 6.8% | 2,272.5 | 164.8 | 7.3% |
| Total interest-earning assets | 3,808.9 | 226.9 | 6.0% | 3,379.4 | 207.7 | 6.2% | 2,941.9 | 187.8 | 6.4% |
| <i>Non-interest-earning assets</i> | | | | | | | | | |
| Cash | 37.0 | — | 0.0% | 39.0 | — | — | 35.4 | — | — |
| Demand deposits..... | 102.4 | — | 0.0% | 76.8 | — | — | 51.8 | — | — |
| Property, furniture, equipment and improvements..... | 52.0 | — | 0.0% | 44.1 | — | — | 38.9 | — | — |
| Accrued interest receivable ⁽²⁾ | 111.4 | — | 0.0% | 102.2 | — | — | 105.6 | — | — |
| Total non-interest-earning assets | 302.9 | — | 0.0% | 262.1 | — | — | 231.7 | — | — |
| Total Assets | 4,111.9 | 226.9 | 5.5% | 3,641.5 | 207.7 | 5.7% | 3,173.6 | 187.8 | 6.4% |

(1) Figures for net loans include past due loans and non-accruing loans.

(2) Refers to obligations we entered through letters of credit.

Average Balance Sheets

Liabilities, Interest Paid and Average Interest Rates

| LIABILITIES | For the years ended June 30, | | | | | | | | |
|--|------------------------------|--------------------------|----------------------------|-----------------|--------------------------|----------------------------|-----------------|--------------------------|----------------------------|
| | 2014 | | | 2013 | | | 2012 | | |
| | Average Balance | Interest Earned/ Paid | Nominal Average Rate | Average Balance | Interest Earned/ Paid | Nominal Average Rate | Average Balance | Interest Earned/ Paid | Nominal Average Rate |
| (U.S.\$ in millions, except for percentages) | | | | | | | | | |
| <i>Interest-bearing liabilities:</i> | | | | | | | | | |
| Demand deposits | 435.5 | 0.1 | 0.0% | 334.6 | 0.1 | 0.0% | 313.0 | 0.1 | — |
| Savings deposits | 540.8 | 5.0 | 0.9% | 468.2 | 4.5 | 1.0% | 423.0 | 5.4 | 1.3% |
| Time deposits | 1,687.7 | 68.0 | 4.0% | 1539.5 | 61.4 | 4.0% | 1,393.0 | 55.9 | 4.0% |
| Interbank time deposits | 114.85 | 0.3 | 0.3% | 99.4 | 0.3 | 0.3% | 87.5 | 0.3 | 0.4% |
| Securities sold under repurchase agreements | 0.13 | — | 0.0% | 16.5 | 0.2 | 1.1% | 10.3 | 0.1 | 0.6% |
| Borrowed funds | 337.1 | 8.1 | 2.4% | 388.8 | 11.8 | 3.0% | 404.0 | 10.6 | 2.6% |
| Commercial paper | 56.2 | 1.6 | 2.9% | 74.6 | 2.4 | 3.2% | 73.5 | 2.3 | 3.1% |
| Corporate bonds payable | 403.8 | 20.8 | 5.2% | 243.0 | 13.5 | 5.6% | 78.7 | 4.1 | 5.2% |
| Subordinated bonds | 99.9 | 6.6 | 6.6% | 100.0 | 6.6 | 6.6% | 100.0 | 6.6 | 6.6% |
| Total interest-bearing liabilities | 3,676.0 | 110.6 | 3.0% | 3,264.5 | 100.6 | 3.1% | 2,882.9 | 85.3 | 3.0% |
| <i>Non-interest-bearing liabilities and shareholders' equity:</i> | | | | | | | | | |
| Other liabilities | 98.7 | — | 0.0% | 95.4 | — | — | 77.3 | — | — |
| Shareholders' equity | 337.2 | — | 0.0% | 281.5 | — | — | 213.4 | — | — |
| Total non-interest-bearing liabilities and shareholders' equity | 435.9 | — | 0.0% | 376.9 | — | — | 290.8 | — | — |
| Total Liabilities | 4,111.9 | 110.6 | 3.0% | 3,641.5 | 100.6 | 3.1% | 3,173.6 | 85.3 | 3.0% |

Net Financial Income and Expense: Volume and Rate Analysis

The following table sets forth, by currency of denomination, changes in our revenue and expenses between changes in the average volume of interest-earning assets and interest-bearing liabilities and changes in their respective nominal interest rates from June 30, 2014 to June 30, 2013 and from June 30, 2013 to June 30, 2012. Volume and rate variances have been calculated based on movements in average quarterly balances and changes in nominal interest rates, average interest-earning assets and average interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

| | June 30, 2014/2013 | | | June 30, 2013/2012 | | |
|---|---|-----------------------|---------------|---|-----------------------|---------------|
| | Increase/(Decrease) Due to Changes in: | | | Increase/(Decrease) Due to Changes in: | | |
| | Rate ⁽¹⁾ | Volume ⁽²⁾ | Net Change | Rate ⁽¹⁾ | Volume ⁽²⁾ | Net Change |
| Interest-earning assets (Interest Income): | | | | | | |
| Interest-earning deposits in commercial banks | (0.2) | 0.1 | (0.1) | (0.2) | 0.1 | (0.1) |
| Securities purchased under resale agreements | (0.1) | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Securities available-for-sale | (0.9) | (0.5) | (1.4) | (13.8) | 11.6 | (2.2) |
| Securities held to maturity | — | — | — | — | — | — |
| Net loans ⁽³⁾ | (6.8) | 27.5 | 20.7 | (9.7) | 31.9 | 22.2 |
| Accrued interest receivable | — | — | — | — | — | — |
| Total interest-earning assets | (8.0) | 27.2 | 19.2 | (23.6) | 43.5 | 19.9 |
| Interest-bearing liabilities (Interest Expense): | | | | | | |
| Demand deposits | (0.0) | 0.0 | 0.0 | (0.0) | — | (0.0) |
| Savings deposits | (0.2) | 0.7 | 0.5 | (1.3) | 0.4 | (0.9) |
| Time deposits | 0.7 | 6.0 | 6.7 | (0.4) | 5.8 | 5.4 |
| Interbank deposits | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | (0.0) |
| Securities sold under repurchase agreements | (0.2) | — | (0.2) | 0.1 | 0.1 | 0.1 |
| Borrowed funds | (2.4) | (1.3) | (3.6) | 1.7 | (0.5) | 1.2 |
| Commercial paper | (0.2) | (0.5) | (0.8) | 0.1 | 0.0 | 0.1 |
| Corporate bonds payable | (1.0) | 8.3 | 7.3 | 0.3 | 9.2 | 9.5 |
| Subordinated bonds | 0.0 | (0.0) | (0.0) | — | — | — |
| Total interest-bearing liabilities | (3.2) | 13.2 | 10.0 | (0.3) | 15.1 | 15.4 |
| Total | (4.7) | 14.0 | 9.2 | (23.9) | 28.4 | 4.6 |

(1) Rate: Corresponds to the impacts generated by changes in interest rates applied to assets and liabilities.

(2) Volume: Corresponds to the impacts generated by changes in the volumes (balances or amounts) of assets and liabilities.

(3) Figures for net loans include past due loans and non-accruing loans.

Interest-Earning Assets: Net Interest Margin and Yield Spread

The following table sets forth for each of the periods indicated our levels of average interest-earning assets, net interest income, gross yield, net interest margin and yield spread, all on a nominal basis.

| | For the years ended June 30, | | |
|--|---|-----------|-----------|
| | 2014 | 2013 | 2012 |
| | (U.S.\$ in thousands, except for percentages) | | |
| Average interest-earning assets | 3,808,983 | 3,379,350 | 2,941,925 |
| Net interest income ⁽¹⁾ | 116,318 | 107,058 | 102,504 |
| Gross yield ⁽²⁾ | 5.96% | 6.15% | 6.4% |
| Net interest margin ⁽³⁾ | 3.05% | 3.17% | 3.5% |

(1) "Net interest income" is defined as interest revenue earned less, interest expense incurred.

(2) "Gross yield" is defined as interest income divided by average interest-earning assets.

(3) Net interest margin represents the difference between gross yield on average interest-earning assets and average cost of interest-bearing liabilities.

Investment Portfolio

We classify our portfolio as securities acquired under repurchase agreements, securities held to maturity and securities available-for-sale. None of the securities we hold are hedged.

We recognize securities available-for-sale at fair value and recognize gains or losses arising from changes in the fair value of these assets in equity until they are discharged from financial assets or we make an impairment determination. We recognize gains or losses arising from changes in the fair value of embedded derivatives, such as structured notes, in our results of operations.

Our investment portfolio is composed of Panamanian sovereign and corporate debt securities, including securities issued by U.S., Latin American, U.K. and European financial institutions and credit-linked notes.

The following table sets forth our investment portfolio by type as of June 30, 2014, 2013 and 2012.

| | As of June 30, | | | | | |
|---|----------------|--------------|--------------|---------------|--------------|---------------|
| | 2014 | | 2013 | | 2012 | |
| | Amount | % | Amount | % | Amount | % |
| <i>Securities acquired under repurchase agreements</i> | | | | | | |
| Panamanian sovereign | — | — | — | — | — | — |
| Panamanian non-sovereign | 3.0 | 0.7% | 5.5 | 1.98% | 1.0 | 0.3% |
| Foreign governments | — | — | — | — | — | — |
| Foreign issuers | — | — | — | — | — | — |
| Total securities acquired under repurchase agreement | 3.0 | 0.7% | 5.5 | 1.98% | 1.0 | 0.3% |
| <i>Securities held to maturity</i> | | | | | | |
| Panamanian sovereign | — | — | — | — | 45.6 | 11.4% |
| Panamanian non-sovereign | — | — | — | — | 27.1 | 6.8% |
| Foreign governments | — | — | — | — | — | — |
| Foreign issuers | — | — | — | — | 10.8 | 2.7% |
| Financial institutions | — | — | — | — | 180.8 | 45.2% |
| Total securities held to maturity | — | — | — | — | 264.3 | 66.1% |
| <i>Securities available-for-sale⁽¹⁾⁽²⁾</i> | | | | | | |
| Panamanian sovereign | 3.5 | 0.9% | 5.1 | 1.85% | — | — |
| Panamanian non-sovereign | 186.9 | 45.7% | 90.6 | 32.7% | 15.5 | 3.86% |
| Foreign governments | — | — | — | — | — | — |
| Foreign issuers | 36.5 | 8.9% | 12.7 | 4.58% | 1.3 | 0.4% |
| Financial institutions | 178.9 | 43.8% | 163.2 | 58.9% | 118.0 | 29.5% |
| Total securities available-for-sale | 405.7 | 99.3% | 271.6 | 98.02% | 134.7 | 33.7% |
| Total securities holdings | 408.7 | 100% | 277.1 | 100.0% | 400.0 | 100.0% |

(1) Numbers reflect the mark-to-market values as of the relevant date.

(2) Includes credit-linked notes issued by various financial institutions.

(3) Includes securities available-for-sale in Panama (47.0%), Brasil (12.0%), United States (7.8%), Guatemala (5.4%), Costa Rica (5.0%), Colombia (5.0%), Switzerland (4.3%), Mexico (3.8%), Peru (3.8%) and others (6.5%).

As of June 30, 2014, our investment portfolio in securities acquired under repurchase agreements represented 0.7% of the total amount of our investments, 0.07% of the value of our assets and 0.7% of our regulatory capital.

As of June 30, 2014, our investment portfolio in securities available-for-sale represented 99.3% of the total amount of our investments, 9.1% of the value of our assets and 89% of our regulatory capital.

The weighted average yield in our interest and dividend-earning investment portfolio was 5.12% as of June 30, 2014, 5.38% as of June 30, 2013, and 5.20% as of June 30, 2012.

The following table sets forth the maturities of our investment portfolio by type as of June 30, 2014:

| | Within 1 year or less | After 1 year but within 5 years | After 5 years but within 10 years (U.S.\$ in thousands) | After 10 years | Total |
|---|-----------------------------|------------------------------------|--|------------------------|-------------------------|
| Securities acquired under repurchase agreements | | | | | |
| Panamanian sovereign | — | — | — | — | — |
| Panamanian non-sovereign | 3,000.0 | — | — | — | 3,000.0 |
| Foreign governments | — | — | — | — | — |
| Foreign issuers | — | — | — | — | — |
| Total securities acquired under repurchase agreement | <u>3,000.0</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>3,000.0</u> |
| Securities held to maturity | | | | | |
| Panamanian sovereign | — | — | — | — | — |
| Panamanian non-sovereign | — | — | — | — | — |
| Foreign governments | — | — | — | — | — |
| Foreign issuers | — | — | — | — | — |
| Financial institutions | — | — | — | — | — |
| Total securities held to maturity | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Securities available-for-sale | | | | | |
| Panamanian sovereign | — | 3,142.2 | — | 334.1 | 3,476.3 |
| Panamanian non-sovereign ⁽¹⁾ | 26,475.5 | 33,835.5 | 114,569.6 | 11,966.9 | 186,847.6 |
| Foreign governments | — | — | — | — | — |
| Foreign issuers | 41.3 | 7,139.9 | 29,346.9 | — | 36,528.1 |
| Financial institutions ⁽²⁾ | 23,543.5 | 45,624.9 | 106,104.3 | 3,600 | 178,872.7 |
| Total securities available-for-sale | <u>50,060.3</u> | <u>89,742.5</u> | <u>250,020.9</u> | <u>15,901.0</u> | <u>405,724.7</u> |
| Total | <u>53,060.4</u> | <u>89,742.5</u> | <u>250,020.9</u> | <u>15,901.0</u> | <u>408,724.7</u> |

(1) Includes common stock issued by Panamanian issuers.

(2) Includes common and preferred stock issued by financial institutions.

Loan Portfolio

The following table sets forth our net loan portfolio by type of loan as of June 30, 2014, 2013 and 2012.

| | As of June 30, | | | | | |
|---|---------------------|---------------|---------------------|---------------|---------------------|---------------|
| | 2014 | | 2013 | | 2012 | |
| | U.S.\$ in thousands | % | U.S.\$ in thousands | % | U.S.\$ in thousands | % |
| Domestic | | | | | | |
| Consumer..... | 584,537.3 | 16.8% | 505,724.2 | 17.4% | 438,273.7 | 17.7% |
| Commercial..... | 807,061.9 | 23.2% | 651,907.0 | 22.5% | 594,278.7 | 24.0% |
| Agricultural..... | 262,081.6 | 7.5% | 231,498.9 | 7.8% | 234,339.8 | 9.5% |
| Secured by pledge..... | 128,110.5 | 3.7% | 110,145.2 | 3.8% | 100,013.4 | 4.0% |
| Overdraft..... | 109,198.8 | 3.1% | 94,454.5 | 3.3% | 77,319.7 | 3.1% |
| Mortgage..... | 550,087.2 | 15.8% | 419,128.4 | 14.4% | 339,117.8 | 13.7% |
| Industrial..... | 126,393.9 | 3.6% | 130,992.0 | 4.5% | 83,266.3 | 3.4% |
| Construction..... | 429,244.6 | 12.3% | 342,993.4 | 11.8% | 253,936.7 | 10.3% |
| Leasing..... | 48,922.6 | 1.4% | 43,344.5 | 1.5% | 43,398.0 | 1.8% |
| Factoring..... | 182,594.3 | 5.3% | 204,526.2 | 7.0% | 215,208.6 | 8.7% |
| Total domestic loans | 3,228,232.8 | 92.8% | 2,734,714.2 | 94.2% | 2,379,152.7 | 96.1% |
| Foreign | | | | | | |
| Commercial..... | 155,579.2 | 4.5% | 105,744.6 | 3.6% | 65,865.5 | 2.7% |
| Agricultural..... | 8,053.2 | 0.2% | 8,759.1 | 0.3% | 7,467.8 | 0.3% |
| Industrial..... | 70,127.9 | 2.0% | 48,013.1 | 1.7% | 41,189.6 | 1.7% |
| Construction..... | 39,400.1 | 1.1% | 15,732.6 | 0.5% | 2,474.0 | 0.1% |
| Secured by pledge..... | 12,550.0 | 0.3% | 27,750.1 | 1.0% | 10,405.0 | 0.4% |
| Overdraft..... | 7,555.9 | 0.2% | 7,364.7 | 0.3% | 5,577.1 | 0.2% |
| Total foreign loans | 293,266.3 | 8.4% | 213,364.2 | 7.4% | 132,978.9 | 5.4% |
| Reserves | | | | | | |
| Global Reserve..... | (20,039.9) | (0.6)% | (28,974.8) | (1.0)% | (23,930.9) | (1.0)% |
| Generic Reserve | (12,981.7) | (0.3)% | (14,219.0) | (4.9)% | (15,489.0) | (0.6)% |
| Unearned interest and discounted commissions..... | (10,553.7) | (0.3)% | (16,355.9) | (0.6)% | (12,838.4) | (0.5)% |
| Total loans, net | 3,477,923.7 | 100.0% | 2,902,767.7 | 100.0% | 2,475,362.2 | 100.0% |

The classification of the loan portfolio by type of loan as set forth in the table above is based upon our internal guidelines. Pursuant to our guidelines, loans are categorized as follows:

Consumer. Consumer loans are loans made to retail clients for the acquisition of automobiles, the payment of credit cards or for personal use. As of June 30, 2014, June 30, 2013 and June 30, 2012, our consumer loan portfolio represented 18.1%, 18.5% and 18.4%, respectively, of the total amount of our domestic loans and 16.8%, 17.4% and 17.7%, respectively, of the total net amount of our loans.

Commercial. Commercial loans represent the largest segment of our loan portfolio. We cater commercial loans to various economic groups in Panama, including small enterprises (U.S.\$50,000 in annual sales) to large multinationals (more than U.S.\$75 million in annual sales). As of June 30, 2014, June 30, 2013 and June 30, 2012, our commercial loan portfolio represented 23.2%, 22.5% and 24.0%, respectively, of the total net amount of our loans.

Agricultural. Agricultural loans are loans made to agricultural businesses, mainly rice and corn farmers and livestock operations. As of June 30, 2014, June 30, 2013 and June 30, 2012, our agricultural loan portfolio represented 7.5%, 7.8% and 9.5%, respectively, of the total net amount of our loans.

Secured by pledge. Loans that are secured by pledge are loans that guarantee a specific asset or collateral. Collateral includes land, financial securities, cash, time deposits, vehicles or other personal property. As of June 30, 2014, June 30, 2013 and June 30, 2012, our secured by pledge loans represented 3.7%, 3.8% and 4.0%, respectively, of the total net amount of our loans.

Overdraft. Overdraft loans are loans made to consumer and corporate clients to offset short-term deficits in their checking accounts. As of June 30, 2014, June 30, 2013 and June 30, 2012, our overdraft loan portfolio represented 3.1%, 3.3% and 3.1%, respectively, of the total net amount of our loans.

Mortgage. Mortgage loans are loans made to finance the purchase of a commercial or residential property. Mortgage loans may be made with variable or fixed interest rates and with variable maturities ranging from 5 to 30 years. As of June 30, 2014, June 30, 2013 and June 30, 2012, our mortgage loan portfolio represented 15.8%, 14.4% and 13.7%, respectively, of the total amount of our net loans, net of provisions.

Industrial. Industrial loans are loans made to entities in the manufacturing or infrastructure business. As of June 30, 2014, June 30, 2013 and June 30, 2012, our industrial loan portfolio represented 3.6%, 4.5% and 3.4%, respectively, of the total net amount of our loans.

Construction. Construction loans are loans made to finance commercial and residential real estate developments. As of June 30, 2014, June 30, 2013 and June 30, 2012, our industrial loan portfolio represented 12.3%, 11.8% and 10.3%, respectively, of the total net amount of our loans.

Leasing. Leasing loans are loans made to finance the acquisition of construction equipment, cars, and corporate fleets of small and large entities. As of June 30, 2014, June 30, 2013 and June 30, 2012, our leasing loan portfolio represented 1.4%, 1.5% and 1.8%, respectively, of the total net amount of our loans.

Factoring. Factoring loans provide invoice payments and reverse factoring to both small and large corporations. As of June 30, 2014, June 30, 2013 and June 30, 2012, our factoring loan portfolio represented 5.3%, and 7.0% and 8.7%, respectively, of the total net amount of our loans.

Maturity Composition of the Performing Loan Portfolio

The following table sets forth an analysis of our performing loan portfolio, collectively, as of June 30, 2014, 2013 and 2012, by type and by time remaining to maturity. Loans are stated before deduction of the provisions for doubtful loans.

| Maturity | As of June 30, | | |
|--------------------------------|------------------------------|------------------|------------------|
| | 2014 | 2013 | 2012 |
| | <i>(U.S.\$ in thousands)</i> | | |
| Up to 1 month | 178,446 | 199,002 | 117,395 |
| Between 1 and 3 months | 359,764 | 309,351 | 291,879 |
| Between 3 and 6 months | 322,768 | 383,695 | 313,394 |
| Between 6 and 12 months | 368,854 | 269,818 | 246,894 |
| Over 12 months | 2,252,914 | 1,753,832 | 1,517,121 |
| Past due loan amounts | 51,911 | 45,115 | 40,514 |
| Total gross loans | 3,534,656 | 2,960,812 | 2,527,197 |

Classification of the Loan Portfolio

We classify our loan portfolio in two categories: (i) corporate loans and other loans and (ii) consumer loans.

Corporate loans and other loans

Corporate loans are defined as loans used for the production and/or marketing of goods and services in various economic sectors, such as agriculture, mining, industrial, construction, commercial and services. All loans made through corporate credit cards, corporate leasing arrangements, project finance and commercial mortgages fall within this loan category, as are loans to micro, small and medium-sized companies and other forms of financing aimed at the aforementioned sectors. Other loans are loans made for the purpose of financing banks, co-operatives, insurance companies, leasing companies, financing companies, factoring, governments, international organizations and non-governmental organizations, among others.

Pursuant to Accord 6-2000, Panamanian banks are required to classify their corporate loans and other loans portfolio into one of five categories (normal, special mention, subnormal, doubtful, unrecoverable) depending upon the degree of risk of nonpayment. The classification of the loans determines the amount of allowance that needs to be allocated by each bank in connection with such loans.

Normal. A loan is considered normal if the debtor's operating cash flow is adequate or exceeds the amount of the obligations to service the debt until such time it is repaid. A loan is normal also when: (i) the debtor demonstrates a financial position with an acceptable level of indebtedness; (ii) the debtor complies punctually with the payment of its obligations, which is deemed to occur when the debtor pays its obligations without resorting to new direct financing; (iii) the guarantees have been checked, clearly defined and periodically valued by suitably qualified professionals who are independent of the debtor; (iv) the debtor has an adequate administration system that enables it to be aware of its financial situation at all times and has the appropriate internal control systems; and (v) the debtor belongs to a sector of economic activity that is performing well in the ordinary course of its business.

Special mention. A loan is classified as a special mention loan if it demonstrates some weakness. In addition, the general state of the business and the guarantees supporting the financial commitments require special attention in order to ensure the recovery of the loan, because the debtor's ability to pay is expected to decline. This weakness on the part of the debtor may originate from (i) situations that affect it directly or indirectly due to a moderate level of indebtedness, adverse situations affecting the economic sector in which it operates, an inadequate loan agreement, weak operating cash flow, or if the future prospects for the economic conditions could have an effect on the guarantees given in our favor or (ii) occasional defaults with payments being made in excess of 30 days but less than 60 days.

Subnormal. A loan is classified as subnormal if the operating cash flow supporting the loan is inadequate and places the recovery of the outstanding balances at risk. We must evaluate the application of the net guarantees *in rem* at their realization value in the market if the defects in the loan are not corrected at the proper time. We must determine if the debtor (i) shows an operating cash flow level that is insufficient to make debt servicing payments in full on the conditions originally agreed or (ii) defaults in the debt servicing payments for more than 60 days but less than 90 days. In addition, we must also consider whether the debtor (i) has loans that have matured and/or are being collected, (ii) shows evidence of worsening in its working capital position, which means that it cannot satisfy the payment on the terms agreed, and (iii) has problems in its credit relationship with suppliers and customers.

Doubtful. Loans grouped in this category are generally loans whose recovery is unlikely, given that the debtor shows a financial and economic position that has worsened significantly. We classify a loan under this category if the loan meets any of the following criteria: (i) the debtor has operating cash flow that is continually shown to be inadequate to cover the debt servicing payments on the terms originally agreed; (ii) the debtor defaults on payment for more than 90 days but less than 360 days; (iii) the debtor has guarantees that do not cover the outstanding debt in full; (iv) there is a breach of the policies and procedures for the administration of the credit risk, and there are inherent weaknesses in the granting, administration and collection of the loan; (v) there are adverse conditions that could affect the recovery of the loan, such as variations in the economic cycle within the country or specific unforeseeable events, such as fires, changes in technology, political changes and other matters that are outside the control of the debtor; (vi) the loan has been renewed more than once without the payment of capital and interest or was diverted to other projects; or (vii) the balance on the loan is greater than the net realization value of the guarantee.

Unrecoverable. This category covers loans whose recoverability is so difficult that their treatment as assets cannot be justified and must be dealt with appropriately so that the loss is recognized. This is done regardless of whether we may ultimately recover the sums owed wholly or in part. This category shall also include loans granted to companies whose ability to generate resources also depends on other companies that, in turn, find themselves in a very precarious financial position when it comes to meeting their commitments, due to their own indebtedness, to their lack of operational capacity or to the situation of the economic sector where they operate. In order to classify a loan in this category, we must take into account whether: (i) the debtor has an operating cash flow that does not cover its costs, is in suspension of payments, is likely also to face difficulties in complying with any restructuring agreements, is in a state of insolvency or has applied for its own bankruptcy; (ii) the debtor has defaulted on payment for more than 360 days; (iii) the debtor has ceased trading and whether its loans are being collected through the judicial system; (iv) we have inadequate knowledge about the customer, particularly in relation to its most recent

financial position and current location; (v) the loan was granted without proper analysis or for subjective reasons; (vi) the documentation for the loan is inadequate, defective or false; or (vii) there are no guarantees or if the guarantees are inadequate or are not properly created.

Consumer loans

Consumer loans consist of consumer credit loans and residential property loans. Consumer credit loans are loans made for acquiring goods or services not intended for the production or marketing of such goods or services. This loan type includes occasional personal overdrafts, loans granted via credit cards, leasing arrangements, loans granted with a mortgage guarantee and all others intended for the aforementioned purposes. Residential property loans (mortgages) are loans made for the purpose of acquiring residential property, provided that the loans are guaranteed by mortgages that are properly constituted and registered.

All loans that relate to consumer credit, with or without guarantees *in rem*, including occasional personal overdrafts, are classified in accordance with the following criteria:

Normal. Loans in respect of which installments are paid as agreed or are in arrears for a maximum period of 30 days.

Special Mention. Loans whose installment payments are in arrears by more than 30 days but less than 60 days.

Subnormal. Loans whose installment payments are in arrears by more than 60 days but less than 90 days.

Doubtful. Loans whose installment payments are in arrears by more than 90 days but less than 180 days; in the case of loans with guarantees *in rem*, the period is extended to 360 days.

Unrecoverable. Loans whose installment payments are in arrears by more than 180 days; in the case of loans with guarantees *in rem*, the period of default must be more than 360 days.

All loans that relate to loans for residential property (mortgages) are classified in accordance with the following criteria:

Normal. Loans in respect of which installments are paid as agreed or up to 30 days in arrears.

Special Mention. Loans whose installment payments are in arrears by more than 30 days but less than 90 days.

Subnormal. Loans whose installment payments are in arrears by more than 90 days but less than 120 days.

Doubtful. Loans whose installment payments are in arrears by more than 120 days but less than 360 days.

Unrecoverable. Loans that show arrears in the payments of installments of more than 360 days.

The following table sets forth our loan portfolio risk classification as of June 30, 2014, 2013 and 2012:

| | As of June 30, | | | | | |
|-------------------------------------|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| | 2014 | | 2012 | | 2012 | |
| | (U.S.\$ in thousands) | % | (U.S.\$ in thousands) | % | (U.S.\$ in thousands) | % |
| Level of Risk Classification | | | | | | |
| 1. Normal | 3,424,716.9 | 96.9% | 2,860,795 | 96.6% | 2,449,329 | 96.9% |
| 2. Special Mention | 65,157.4 | 1.8% | 54,983 | 1.9% | 36,651 | 1.5% |
| 3. Subnormal | 21,563.8 | 0.6% | 24,448 | 0.8% | 25,089 | 1.0% |
| 4. Doubtful | 21,806.1 | 0.6% | 19,636 | 0.7% | 14,187 | 0.6% |
| 5. Unrecoverable | 1,411.2 | 0.0% | 950 | — | 1,940 | 0.1% |
| Total gross loans | 3,534,655.6 | 100.0% | 2,960,812 | 100.0% | 2,527,197 | 100.0% |
| Loans 3+4+5 | 44,781 | 1.3% | 45,034 | 1.5% | 41,217 | 1.6% |

Past due Portfolio

The following table sets forth the repayment status our loan portfolio as of June 30, 2014, 2013 and 2012:

| | As of June 30, | | | | | |
|---|---|---------------|--------------------|---------------|--------------------|---------------|
| | 2014 | | 2013 | | 2012 | |
| | (U.S.\$ in thousands, except percentages) | | | | | |
| Current | 3,482,745.0 | 98.5% | 2,915,697.2 | 98.5% | 2,486,682.6 | 98.4% |
| Past due: | | | | | | |
| Overdue 31-90 days | 25,086.1 | 0.7% | 21,866.2 | 0.7% | 21,212.0 | 0.8% |
| Overdue 91 days or more | 26,824.5 | 0.8% | 23,248.7 | 0.8% | 19,302.2 | 0.8% |
| Total past due loans | 51,910.6 | 1.5% | 45,114.9 | 1.5% | 40,514.2 | 1.6% |
| Total gross loans | 3,534,655.6 | 100.0% | 2,960,812.1 | 100.0% | 2,527,196.9 | 100.0% |
| Past due loan amounts as a percentage of total gross loans | — | 1.5% | — | 1.5% | — | 1.6% |

The following table sets forth our past due loan portfolio for 91 days or more by type of loan as of June 30, 2014, 2013 and 2012:

| | As of June 30, | | | | | | | | |
|--|---|---------------|-------------------|---------------|-----------------|---------------|--|--|--|
| | 2014 | | 2013 | | 2012 | | | | |
| | (U.S.\$ in thousands, except percentages) | | | | | | | | |
| Past due loan amounts | | | | | | | | | |
| Loans | 15,605 | 0.4% | 12,871 | 0.4% | 13,550.1 | 0.5% | | | |
| Discounted notes | — | — | — | — | — | — | | | |
| Advances and overdrafts in demand deposits..... | 1,603 | 0.0% | 1,580.7 | 0.1% | 667.9 | 0.0% | | | |
| Refinanced loans | 9,616 | 0.3% | 8,797 | 0.3% | 5,084.3 | 0.2% | | | |
| Total past due portfolio | 26,824.5 | 0.8% | 23,248.7 | 0.8% | 19,302.2 | 0.8% | | | |
| Specific provisions | 13,156.5 | 0.4% | 12,733.7 | 0.4% | 15,065.3 | 0.6% | | | |
| Not specifically identified provisions | 33,021.6 | 1.0% | 28,974.8 | 1.0% | 23,930.9 | 0.9% | | | |
| Total provisions for possible loan losses | 46,178.1 | 1.3% | 41,708.5 | 1.4% | 38,996.2 | 1.5% | | | |
| Total past due portfolio net of total provision | (19,353.6) | (0.5)% | (18,459.8) | (0.6)% | (19,694) | (0.8)% | | | |

Provision for Possible Loan Losses

The following table sets forth the changes in our provisions for possible loan losses and movements as of June 30, 2014, 2013 and 2012:

| | As of June 30, | | | | | |
|--|---|---------------|-----------------|---------------|-----------------|---------------|
| | 2014 | | 2013 | | 2012 | |
| | (U.S.\$ in thousands, except percentages) | | | | | |
| Balance at the beginning of the year..... | 41,708.5 | 90.3% | 38,996.2 | 93.5% | 31,123.0 | 79.8% |
| Provisions charged to expenses | 8,000.0 | 17.3% | 8,500.0 | 20.4% | 15,575 | 39.9% |
| Recoveries..... | 1,076.8 | 2.3% | 997.9 | 2.4% | 928.5 | 2.4% |
| Write-off loans | (4,607.2) | (9.9)% | (6785.6) | (16.3)% | (8,630.3) | 22.1% |
| Balance at the end of the year..... | 46,178.1 | 100.0% | 41,708.5 | 100.0% | 38,996.2 | 100.0% |

See “*Classification of the Loan Portfolio*” for a discussion of the risk elements in the loan portfolio and the factors considered in determining the amount of specific allowances.

Allocation of Allowance for Loan Losses

The following table sets forth the amounts of our allowance for doubtful loans attributable to consumer and corporate loans as of June 30, 2014, 2013 and 2012.

| | As of June 30, | | | | | |
|--|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| | 2014 | | 2013 | | 2012 | |
| | (U.S.\$ in thousands) | % | (U.S.\$ in thousands) | % | (U.S.\$ in thousands) | % |
| Consumer..... | 5,521.0 | 11.96% | 4,617.3 | 11.1% | 6,263.0 | 16.1% |
| Commercial..... | 3,775.8 | 8.18% | 3,910.1 | 9.4% | 4,311.0 | 11.1% |
| Agricultural..... | 3,056.3 | 6.62% | 3,071.3 | 7.4% | 3,080.0 | 7.9% |
| Secured by pledge ⁽¹⁾ | — | — | — | — | — | — |
| Overdraft..... | 36.1 | 0.08% | 70.4 | 0.2% | 110.0 | 0.3% |
| Mortgages | 352.0 | 0.76% | 289.7 | 0.7% | 388.0 | 1.0% |
| Industrial | — | 0.00% | — | — | — | — |
| Leasing..... | 5.4 | 0.01% | 6.8 | — | 104.0 | 0.3% |
| Factoring | 409.9 | 0.89% | 768.1 | 1.8% | 809.0 | 2.1% |
| Unallocated ⁽²⁾ | 33,021.7 | 71.51% | 28,974.8 | 69.5% | 23,931.0 | 61.4% |
| Total loans..... | 46,178.2 | 100.0% | 41,708.5 | 100.0% | 38,996.0 | 100.0% |

(1) We do not make any provisions for loans secured by pledge, as their guaranty is rapidly enforceable upon the debtor's failure to comply with the applicable payment schedule.
 (2) Refers to provisions we made in accordance with Panamanian regulations on regulatory capital and our internal policies to mitigate the risk of loan delinquency.

Composition of Deposits

The following table sets forth the components of our deposit base as of June 30, 2014, 2013 and 2012.

| | As of June 30, | | | | | |
|-------------------------|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| | 2014 | | 2013 | | 2012 | |
| | (U.S.\$ in thousands) | % | (U.S.\$ in thousands) | % | (U.S.\$ in thousands) | % |
| Demand deposits | 461,767.9 | 16.1% | 389,295.8 | 14.8% | 313,122.5 | 13.6% |
| Time deposits..... | 1,701,972.7 | 59.2% | 1,650,006.4 | 62.6% | 1,444,300.8 | 62.9% |
| Savings deposits..... | 588,245.4 | 20.4% | 488,682.1 | 18.6% | 452,306.1 | 19.7% |
| Interbank time deposits | 122,341.5 | 4.3% | 106,903.2 | 4.1% | 85,646.7 | 3.7% |
| Total | 2,874,327.5 | 100.0% | 2,634,887.6 | 100.0% | 2,295,375.5 | 100.0% |

Maturity of Deposits

The following table sets forth information regarding the maturity of our deposits as of June 30, 2014.

| | As of June 30, 2014 | | | | | (U.S.\$ in thousands) |
|----------------------------------|---------------------|----------------|-------------------|----------------|---------------|-----------------------|
| | 1 month | 1-3 months | 3 months - 1 year | 1-5 years | 5 years+ | |
| | | | | | | |
| Time deposits | 182,123 | 192,081 | 637,254 | 784,521 | 28,334 | 1,824,314 |
| Savings deposits..... | 588,245 | — | — | — | — | 588,245 |
| Demand deposits | 461,768 | — | — | — | — | 461,768 |
| Total | 1,023,404 | 400,813 | 637,254 | 784,521 | 28,334 | 2,874,327 |
| Percentage of Total | 35.6% | 13.9% | 22.2% | 27.3% | 1.0% | 100.00% |

Return on Equity and Assets

The following table sets forth the components for our return on equity and assets for the years ended June 30, 2014, 2013 and 2012.

| | For the year ended June 30, | | |
|---|-----------------------------|-------|-------|
| | 2014 | 2013 | 2012 |
| Return on assets ⁽¹⁾ | 1.6% | 2.0% | 1.6% |
| Return on equity ⁽²⁾ | 19.5% | 26.3% | 23.7% |
| Dividend payout ratio ⁽³⁾ | 12.5% | 13.0% | 12.9% |
| Equity-to-assets ratio ⁽⁴⁾ | 8.2% | 7.6% | 6.8% |

(1) Net income as a percentage of average total assets, computed as the average of period-beginning and period-ending balances.
 (2) Net income as a percentage of average shareholders' equity, computed as the average of period-beginning and period-ending balances.
 (3) Dividends declared per share divided by net profit per share.
 (4) Equity divided by average total assets, both ending balances (spots).

Short-Term Borrowings

Pursuant to Resolution No. 253-06 of October 26, 2006 of the National Securities Commission of Panama, we were authorized to offer negotiable commercial securities (known in Panama as commercial paper) for a nominal value of up to U.S.\$100 million and a maturity of up to one year. We had issued commercial paper in the amount of U.S. \$59.9 million as of June 30, 2014, U.S. \$59.1 million as of June 30, 2013, and U.S.\$85.3 million as of June 30, 2012.

BUSINESS

Overview

We are a corporation (*sociedad anónima*) incorporated pursuant to the laws of Panama. As of June 30, 2014, we were the second-largest privately owned bank in Panama (excluding banks controlled by the Panamanian government and foreign banks) in terms of total assets, total loans and total deposits with U.S.\$4.5 billion in total assets, representing a 14.5% market share; U.S.\$3.2 billion in unpaid principal balance of total domestic loans, representing a 19.5% market share; and U.S.\$2.6 billion in total domestic customer deposits, representing a 12.4% market share, each according to information published by the Superintendency of Banks. As of June 30, 2014, our loan portfolio was split with 66.5% in the corporate sector and 33.5% in the consumer sector and, as of such date, we were the third-largest provider of commercial loans in Panama with a 10.6% market share and the fourth largest provider of consumer loans in Panama in terms of principal balance of total loans outstanding, which includes all retail loans other than mortgages, with a 7.0% market share (excluding banks controlled by the Panamanian government). As of June 30, 2014, we held a market share of 18.5% in agricultural loans in Panama. Within the consumer loan segment, we were also the third-largest provider of auto loans among banks in Panama in terms of outstanding balance, with a 15.1% market share as of June 30, 2014.

For the fiscal years ended June 30, 2014, 2013 and 2012, our net income was U.S.\$65.9 million, U.S.\$71.5 million and U.S.\$50.4 million, respectively. As of June 30, 2014, our shareholders' equity was U.S.\$369.1 million. Our annual return on average common shareholders' equity for the fiscal year ended June 30, 2014 was 19.5% and our annual return on average total assets for the year ended June 30, 2014 was 1.6%.

We serve our customers through a nationwide network of 32 branches, three loan centers and a network of 110 ATMs and ten drive-through ATMs, the second largest points-of-service network of a privately owned bank in Panama (excluding banks controlled by the Panamanian government and foreign banks) as of June 30, 2014. We had over 137,650 active retail and corporate customers as of June 30, 2014.

We are part of the conglomerate controlled by G.B. Group Corporation. G.B. Group Corporation is a publicly traded company listed in the Panamanian Stock Exchange (*Bolsa de Valores de Panamá*). We control, among others, a factoring financial entity, Factor Global Inc.; an offshore bank, Global Bank Overseas Limited; a brokerage firm, Global Valores, S.A.; an insurance company, Aseguradora Global, S.A.; and a trust administration entity, Global Financial Funds Corporation. Each of these subsidiaries is consolidated in our consolidated financial statements. Through these entities, we offer a variety of products and services to both consumers and corporate clients, including traditional banking, as well as factoring, securities brokerage services, insurance and surety bond issuance services, real estate management, investment banking and financial consultation services. See “*Business—Corporate Organizational Structure*” below.

Our Corporate Structure

We are a wholly owned subsidiary of G.B. Group Corporation. We own 100% of the issued and outstanding shares of the entities described below. These entities are not run independently from us, and most of their revenues are accounted for in our consolidated financial statements.

Factor Global Inc., a Panamanian corporation (*sociedad anónima*) that began operations in 1995, is engaged in the purchase of discounted bills issued by third parties.

Global Financial Funds Corporation, a Panamanian corporation (*sociedad anónima*) that began its operations in 1995, is in charge of administering trusts created by our clients, including guarantee trusts for car loans and other general loans. Global Financial Funds Corporation also offers escrow services and structuring of estate planning and protection vehicles.

Global Capital Corporation, a Panamanian corporation (*sociedad anónima*) that began its operations in 1994, is mainly engaged in corporate financial business and financial advisory services.

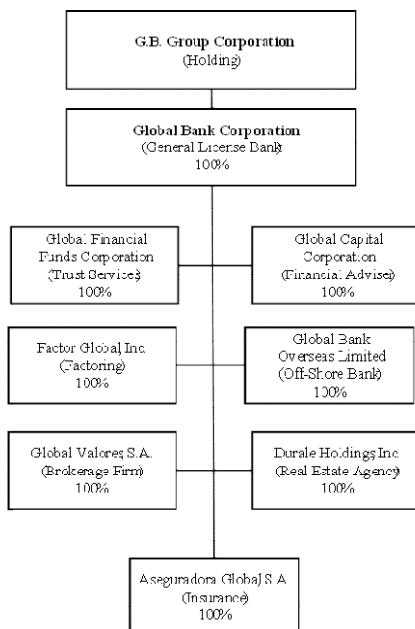
Global Valores, S.A., a Panamanian corporation (*sociedad anónima*) that began its operations in 2003, is engaged in the brokerage business through the Stock Exchange of Panama.

Global Bank Overseas Limited, a bank incorporated under the laws ofMontserrat, British West Indies in 2003, is engaged in the foreign banking business.

Aseguradora Global, S.A., a Panamanian corporation (*sociedad anónima*) incorporated in April 2003 and acquired by us in December 2004, is engaged in the subscription and issuance of insurance policies to third parties, particularly to such of our clients that have life, employment or fire insurance as required by us.

Durale Holdings Inc., a Panamanian corporation (*sociedad anónima*) incorporated in January 2006, is engaged in the real estate business and currently owns the properties where our branches are located.

The following chart illustrates the current organizational structure of G.B. Group Corporation:



Strengths

Strong Presence in the Panamanian Banking Industry

As of June 30, 2014, we were the second largest privately owned bank in Panama (excluding banks controlled by the Panamanian government and foreign banks) in terms of total assets, total loans and total deposits with U.S.\$4.5 billion in total assets, representing a 14.5% market share, U.S.\$3.2 billion in unpaid principal balance of total domestic loans, representing a 19.5% market share, and U.S.\$2.6 billion in total domestic customer deposits, representing a 12.4% market share, each according to information published by the Superintendency of Banks. Our strong presence in Panama allows us to service a wide spectrum of clients, maximize revenue and gain market share.

Prudent Credit Underwriting Policies

We follow a conservative credit underwriting process in our origination process for all loan products. Our credit department is responsible for approving or rejecting each loan application. The credit department assesses each loan application through our centrally controlled credit decision system. This assessment takes into account a variety of factors relating to the customer's financial circumstances obtained from the applicant at the time the loan application is submitted, as well as information obtained from credit checks done through the Credit Bureau of the Panamanian Credit Association (*Asociación Panameña de Crédito (APC)*), an independent credit reporting agency

that provides detailed historical information of consumer credit activity in the Panamanian market for up to 24 months prior to the date of the loan application. Underwriters have five to ten years of banking experience, and underwriting managers have at least ten years of experience in this segment. Depending on the size of the loan, we require certain of our officers to be involved in the authorization of a loan so that loans exceeding certain thresholds may only be authorized by certain senior officers or by the Board of Directors.

Our prudent underwriting policies have allowed us to keep a low delinquency level on both our consumer and corporate loan portfolios. As of June 30, 2014, our past due loan portfolio represented 0.8% of our total outstanding loans.

Demonstrated Ability to Deliver Profitable Growth While Maintaining Asset Quality

We believe that our strong deposit base and diversified loan portfolio of consumer and corporate credit, combined with our universal business model that includes banking services to small, medium-sized and large companies and financial services to the agricultural sector, and consumer credit, including personal, automobile, credit card, retiree and mortgage loans, have allowed us to achieve strong revenue growth with relatively low default rates and a diversified client base. Our recent growth has been accompanied by increased levels of profitability. For the fiscal year ended June 30, 2014, our total interest and commission income grew by 11.0% to U.S.\$266.3 million. Our return on average common equity for the fiscal year ended June 30, 2014 was 19.5%, compared to 26.4% for the fiscal year ended June 30, 2013.

Convenient and Broad Retail Distribution Network

We have an extensive distribution network composed of 32 branches, three loan centers, and a network of 110 ATMs and ten drive-through ATMs (*autobancos*) as of June 30, 2014. Based on points of service, including ATMs and drive-through ATMs, our geographic coverage and service infrastructure is the second largest among privately owned banks in Panama (excluding banks controlled by the Panamanian government and foreign banks). In addition to this extensive distribution network, we provide online banking services in English and Spanish, mobile banking, call centers and kiosks, providing our customers with increased banking flexibility and accessibility.

Experienced Board of Directors and Management Team

We have attracted and retained professionals to our senior management and Board of Directors who are highly competent and experienced and committed to our interests and objectives. As of June 30, 2014, seven of the 11 members of the Board of Directors were also founding members, and nine of the 11 members of the Board of Directors are also shareholders holding 75.5% of the outstanding common stock of G.B. Group Corporation, our parent company. Our current senior officers have extensive experience in the financial markets and the Panamanian banking sector, with an average of ten years of experience and 119 years of combined experience.

Demonstrated Ability to Adapt to Changing Market Dynamics

We believe that we have the management experience, ability and platform to quickly adapt to different growth trends in the local financial markets. Throughout our 20-year history, we have shifted the weighting of our loans between the consumer and corporate sectors in order to adapt to different growth trends. For example, from 2001 through 2005, our loan portfolio was more than 50% weighted in the consumer sector. From 2006 to 2014, management identified a sizable amount of foreign direct investment and infrastructure projects in Panama and shifted its strategy to become predominantly a commercial bank. As of June 30, 2014, 66.5% of our loan portfolio was in the corporate sector, and 33.5% was in the consumer sector.

Strategy

Expand the Consumer and Corporate Banking Activities and Customer Base

We are a full-service bank offering a variety of products and services to both consumer and corporate clients. Our primary objective is to continue to solidify our position as one of the largest closely held financial institutions in Panama. We plan to increase our market share across all business segments in the Panamanian market by expanding our current customer base and achieving economies of scale.

We plan to strengthen and improve our corporate and consumer banking divisions to increase market penetration and profitability per customer. In the corporate banking division, we intend to increase our loan volume by catering to medium-sized and large entities, in addition to strengthening our number one position in agriculture lending. We intend to further develop the highest growth areas in our corporate banking division, namely construction and infrastructure. Economies of scale will be achieved through the cross-selling of products, such as cash management, factoring, treasury products, foreign exchange and online banking, to our traditional credit customers.

In the consumer banking division, we intend to expand our consumer base by leveraging our branch network, continuing our leading market share in automobile loans, introducing additional credit card products, increasing personal loans and further strengthening our relationship with real estate developers to generate mortgages. Our management believes that the Panamanian financial system offers significant potential due to Panama's expected economic expansion, a continuation of the trend observed in the last three years. We also intend to increase the number of banking products held per customer by offering our existing customers additional products, such as automobile loans, home, auto and personal insurance, and credit and debit cards.

Pursue Cross-Selling Opportunities to Capitalize on the Customer Base

We intend to increase our market share and profitability by aggressively cross-selling our products and services. As of June 30, 2014, we had approximately 125,655 retail customers, 74.9% of whom used only one retail banking product and 25.1% of whom used at least two retail banking products. We believe that our existing customer base represents a significant opportunity to sell additional banking products and services and to thereby increase our penetration in the retail market and strengthen loyalty among our customers. We intend to capitalize on this opportunity by enhancing our marketing efforts to better tailor our products and related marketing strategies to existing customers and to cross-sell new products to such customers based on their needs. We will continue to invest in new information management tools to allow us to gain insights into the demographics and needs of our customer base, while continuing to provide all services throughout our distribution channels.

Expand the Retail Loan Portfolio in a Disciplined Manner

We believe that retail banking in Panama continues to have significant growth potential. We intend to continue to grow our retail loan portfolio in a sustainable and disciplined manner, with a strong capital base and a diverse range of deposits. We believe that the expected growth of the Panamanian economy will lead to growth in consumer and mortgage loans and that we are well positioned to capture this opportunity. Specifically, we are focused on the following key retail loan products: personal loans, automobile loans, residential mortgage loans and credit cards. For each of these products, we have developed strategic business plans, including targeted marketing campaigns and dedicated sales forces, and have trained qualified personnel to cross-sell these products and provide post-sale customer service. We also intend to capitalize on our distribution network to continue our cross-selling efforts of key products. In addition, we will continue to provide financing to real estate developers, which better positions us to market our mortgage loans to home buyers.

Continue to Expand and Develop the Distribution Network

We believe that bringing banking services closer to the homes and facilities of our existing clients and potential new customers is one key to our growth. We provide financial products and services mainly through our branch network, ATMs, drive-through ATMs (*autobancos*), online banking, mobile banking, kiosks and call centers.

As of June 30, 2014, we served our client base through a network of 32 branches nationwide, three loan centers, and a network of 110 ATMs and ten drive-through ATMs. Through our branch network, clients conducted over 7.9 million transactions during the fiscal year ended June 30, 2014. Based on points of service, including ATMs and drive-through ATMs, our geographic coverage and service infrastructure is the second largest privately owned bank in Panama (excluding banks controlled by the Panamanian government and foreign banks). We intend to enhance customer convenience by opening additional branches and installing additional ATMs and point-of-sale terminals, as well as by expanding our electronic and mobile banking services.

Expand the Corporate Banking Business by Focusing on Higher Margin Products and Growth Industries

We believe that we have significant opportunities in the corporate banking sector as a result of current and anticipated growth in private sector investment in Panama. Within the corporate banking sector, we provide credit facilities and high-margin products and services, such as factoring and insurance, especially for small and medium-sized businesses. We also have a strategy to increase our investment banking business, especially in the areas of capital markets and M&A, which we expect will lead to increased lending to the corporate sector. In addition, we developed an expertise in industries in which we believe there is potential for high growth and profitability, such as agribusiness and real estate development. As a result, we are able to provide specialized advice to leading companies within those industries. We will continue to develop high-growth areas such as construction, infrastructure, cash management and factoring services and to increase penetration among small and medium-sized business in high-growth industries.

Continue to Improve Operating Efficiencies

We maintain a disciplined approach to reduce costs and generate efficiencies. We intend to continue to improve our operational efficiency through the development of new business plans, increased employee training, streamlining of the organizational structure of certain segments and divisions, and increased sales monitoring and responses. In particular, we plan to continue to invest in technology in order to enhance the application, documentation and monitoring of our lending operations, automate certain of our key operations, strengthen our distribution network and achieve greater efficiencies in all of our processes.

Focus on Superior Customer Service

We seek to strengthen our relationships with existing customers and attract new clients by focusing on superior customer service by providing alternative distribution channels such as online, call centers and telephone banking so that customers can conduct financial transactions 24 hours a day, seven days a week. We believe that superior customer service is instrumental to our growth in the retail banking sector and will continue to offer our customers personalized assistance to help them with their banking needs. We are committed to building a highly motivated team with the skills, capacity and dedication to provide superior customer service. To that end, we intend to continue to focus on attracting, training and retaining top talent and leveraging the expertise and experience of our management and employees to improve customer service.

Expand Our Factoring and Insurance Business by Capitalizing on Infrastructure Opportunities

The Panamanian government has put forward an aggressive infrastructure program to modernize and expand the country's infrastructure, including the construction of Panama's second metro line, the expansion of the Panama Canal, and the restructuring and construction of overpasses and additional traffic lanes throughout the main roads of Panama City. We believe that these infrastructure opportunities will allow us to strengthen our factoring business and our cross-selling of insurance products to our existing customers by meeting the needs and requirements of the contractors that will be working on these infrastructure projects.

History

In June 1994, we began our operations as a private bank under a general banking license granted by the National Banking Commission, predecessor of the Superintendence of Banks of Panama (*Superintendencia de Bancos*). During our first year of operation, we focused primarily on serving the corporate sector in Panama City

and the Colon Free Trade Zone (*Zona Libre de Colón*). In 1999, we acquired 100% of the shares of Banco Confederado de América Latina (Colabanco). We began offering online banking services in October 2000.

In April 2001, we registered our first issuance of corporate notes in an amount of U.S.\$40 million with the National Securities Commission. This issuance was followed by our first issuance of preferred shares in 2002 for an amount of U.S.\$20 million, which was registered with the National Securities Commission. In January 2003, Global Valores, S.A., our wholly owned subsidiary, was authorized to operate as a brokerage firm, and, in August 2003, Global Bank Overseas Limited, our wholly owned subsidiary, commenced its operations.

In 2007, Aseguradora Global, S.A., our wholly owned subsidiary, obtained the authorization and license to offer life insurance and general lines of business by the Superintendency of Insurance and Reinsurance of Panama (*Superintendencia de Seguros y Reaseguros*).

In June 2009, we registered our first issuance of convertible subordinated notes in an amount of U.S.\$30 million with the National Securities Commission. This issuance was followed by our first issuance of non-cumulative subordinated notes, which was completed in 2010 for an amount of U.S.\$150 million and registered with the National Securities Commission. Later that year, we introduced mobile banking, which allowed our customers to perform certain financial transactions through their cellular phones, and we acquired part of the mortgage loan portfolio of Banco Citibank (Panama) S.A. totaling U.S.\$56.7 million.

In October 2012, we established a U.S.\$500 million covered bond program and issued U.S.\$200 million in covered bonds. This issuance was followed by another for U.S.\$100 million in October 2013. In June 2014, we completed our first Swiss franc notes transaction for an amount of CHF75 million.

Major Business Lines

We are a full-service commercial bank operating mainly in Panama. We provide a wide range of financial services to retail, commercial and corporate clients. Our primary business lines are consumer banking, corporate banking, private banking, offshore banking, insurance, factoring and investment banking.

The following table sets forth the composition of our combined loan portfolio by size of client as of June 30, 2014:

| | As of June 30, 2014 | |
|----------------------------------|------------------------------|-----------------------------|
| | Amount (U.S.\$ in thousands) | (%) of total loan portfolio |
| 10 largest clients | 243,071.5 | 6.9% |
| 11th to 20 largest clients | 169,569.2 | 4.8% |
| 21th to 30 largest clients | 140,735.9 | 4.0% |
| Other clients..... | 2,981,278.9 | 84.3% |
| Total gross loans..... | 3,534,655.5 | 100.0% |

Consumer Banking

Our consumer banking division focuses on providing a full range of financial products and services to individuals. This unit is subdivided into retail and premium banking departments, through which we offer retail loans, including personal loans, automobile loans, mortgage loans and credit cards. As of June 30, 2014, the unpaid principal balance of retail loans represented 33.4% of our total loan portfolio. We also offer traditional consumer banking services to both our retail and premium customers such as checking and savings accounts, CDs and trust services, among others. Premium banking offers additional personalized consumer banking services and solutions to customers with monthly income of more than U.S.\$2,000.

Our strategy for consumer banking operations also includes continuing to develop a stable and diverse deposit base with a focus on customer deposits, which provides us with a low-cost source of funding. Customer

deposits consist of transactional, savings and time deposit accounts. We are focused on cross-selling products, such as premium banking, and improving per-client profitability.

Retail Loans

The main loan products offered by our retail banking division are personal loans, automobile loans, residential mortgage loans, credit cards, loans secured by pledge and overdrafts and non-interest bearing loans.

The following table sets for the composition of our retail loan portfolio as of June 30, 2014, 2013 and 2012, respectively:

| | As of June 30, | | | Change 2014/2013 |
|-------------------------------------|---|--------------|--------------|--------------------|
| | 2014 | 2013 | 2012 | |
| | (U.S.\$ in millions except percentages) | | | |
| Personal loans ⁽¹⁾ | 391.4 | 340.6 | 293.7 | 50.8 14.9% |
| Residential mortgage loans..... | 550.4 | 419.4 | 339.5 | 131.0 31.2% |
| Automobile loans | 154.6 | 139.5 | 126.4 | 15.1 10.8% |
| Secured by pledge | 37.2 | 34.0 | 32.4 | 3.2 9.4% |
| Credit card loans | 44.0 | 30.2 | 24.4 | 13.8 45.7% |
| Overdraft | 12.3 | 10.6 | 8.3 | 1.7 16.5% |
| Total | 1,189.9 | 974.3 | 824.8 | 215.6 22.1% |

(1) Includes loans to retirees.

Personal Loans. Personal loans consist primarily of retiree loans and direct deduction loans to employees of private companies and public employees (mainly in special regulated sectors such as health, education and the Panama Canal Authority).

We generally require personal loan customers to have a total debt-to-income capacity lower than 50%. Typically, a customer receiving a personal loan must contract and maintain a life insurance policy and, in the case of private and public employees, an employment insurance policy covering up to ten loan payments following the loss of employment.

The method of payment for most personal loans extended to private and public employees is direct deduction. The method of payment for all personal loans extended to retirees is pension discount. The amount of the discount depends on the recipient of the loan. Retirees may discount up to 70% of their total pension benefit, public employees may discount up to 35% of their total payroll amount and private employees may discount up to 20% of their total payroll amount.

The maximum maturity of a personal loan extended to private employees is typically 120 months and, in the case of public employees, typically 300 months. Retiree loans may only be extended to individuals younger than 80 years old at the time the loan is disbursed. Our personal loan portfolio has an average size of U.S.\$13,455.

As of June 30, 2014, the total aggregate principal balance outstanding of our personal loan portfolio amounted to U.S.\$391.4 million, the sixth largest in Panama, with an 8.4% market share as of June 30, 2014.

As of June 30, 2014, 1.5% of our retail loan portfolio was classified as doubtful (loans whose installment payments are in arrears by more than 90 days but less than 180 days) and 0.17% was classified as unrecoverable (loans whose installment payments are in arrears by more than 180 days).

Residential Mortgage Loans. We offer residential mortgage loans in Panama. Residential mortgage loans are classified as preferential mortgage loans, non-preferential mortgage loans, home equity loans (HELs), construction loans and other real estate-related loans. Typically, a residential mortgage loan has a maturity of 12 to 360 months and ranges from U.S.\$50,000 to U.S.\$200,000 and an average loan-to-value between 69.2% and 78.5%, depending on the type of mortgage loan. As of June 30, 2014, the total aggregate principal balance amount outstanding of our mortgage loan portfolio amounted to U.S.\$550.4 million, the sixth largest in Panama, with a 5.9%

market share as of June 30, 2014 and a default rate of 0.8% of the total principal balance amount of our mortgage loan portfolio.

As of June 30, 2014, 0.64% of our mortgage loan portfolio was classified as doubtful (loans whose installment payments are in arrears by more than 120 days but less than 360 days) and 0.0% was classified as unrecoverable (loans whose installment payments are in arrears by more than 360 days).

Below is a detailed description of each of our residential mortgage loan products:

Preferential Mortgage Loans: The Panamanian government promotes a social interest housing program pursuant to Law No. 3 dated 20 May 1985. Under this program, we offer mortgage loans with a preferential rate and receive a subsidy from the Panamanian government in the form of a tax credit, known as a fiscal credit, for every Preferential rate loan granted. The government's subsidy varies, depending on the value of the property. Properties worth U.S.\$30,000 or less are eligible for a subsidy equal to the Panamanian reference rate (which at December 31, 2013 was 6.0% and for the second quarter of 2014 was 5.75%); properties worth between U.S.\$30,000 and U.S.\$65,000 are eligible for a 4.0% subsidy; and properties worth between U.S.\$65,000 and U.S.\$120,000 are eligible for a 2.0% subsidy. The Panamanian reference rate is established by the Superintendency of Banks on a quarterly basis. The Panamanian government offers the subsidy during the first 15 years of the loan. Thereafter, loans accrue interest at the regular market reference rate.

Our preferential mortgage loan portfolio has an average mortgage size of U.S.\$59,000 with down payments between 2.0% and 3.0%. Customers must also have a total debt-to-income capacity lower than 50%, a life and fire insurance policy and a minimum income of at least U.S.\$500 per month. The average original term of the Issuer's Preferential Rate Loan portfolio is 30 years. As of June 30, 2014, the unpaid principal balance of our preferential mortgage loan portfolio amounted to U.S.\$276.2 million, representing 50.4% of our total residential mortgage loan portfolio.

Non-Preferential Rate Loans: We offer non-preferential rate loans for the purchase or construction of the customer's primary residence with a value generally between U.S.\$100,000 and U.S.\$400,000. Our non-preferential rate loan portfolio has an average mortgage size of U.S.\$101,456, generally with a down payment of 5% in the case of employees or retirees, 15% in the case of independent workers; and 30% in the case of foreign residents. Customers must also generally have a total debt-to-income capacity lower than 50%, a life and fire insurance policy and a minimum monthly income of at least U.S.\$500. The methods of payment are direct deduction and debit account deduction. Non-preferential mortgage rates are determined by market conditions and are not controlled or set by any regulator or government agency. Generally, the average term of this portfolio is 30 years. As of June 30, 2014, our unpaid principal balance of non-preferential rate loan portfolio amounted to U.S.\$272.3 million, representing 49.6% of our total residential mortgage loan portfolio.

Automobile Loans. We offer automobile loans for the acquisition of new or used cars for commercial or personal use, with an emphasis on SUVs and sedans from Japanese and Korean automakers.

Our automobile loan customers are public and private employees, retirees or self-employed individuals. Also, each customer is generally required to have a total debt-to-income capacity lower than 50% and a car insurance policy. The methods of payment of automobile loans are voluntary payment or debit account payment. All automobile loans require a minimum downpayment of 10% or higher depending on the brand and type of vehicle and have a maximum maturity of 84 months. Our automobile loan portfolio has an average amount of U.S.\$11,063 per loan.

As of June 30, 2014, the automobile loan portfolio was comprised of 13,920 loans, with a total aggregate amount outstanding of U.S.\$154.6 million. Our automobile loan portfolio represents the third largest in Panama, with a 15.1% market share as of June 30, 2014.

Loans secured by pledge. Loans that are secured by pledge are loans that guarantee a specific asset or collateral. Collateral includes land, financial securities, cash, time deposits, vehicles or other personal property. As of June 30, 2014, our secured by pledge loan portfolio was comprised of 1,885 loans, with a total aggregate amount outstanding of U.S.\$37.2 million.

Credit Cards. We offer a variety of credit card products for different segments of the population, including low interest rate credit cards (*Visa Tasa Fija* and *Visa Secured*) and rewards program credit cards (*Visa Cash Back*, *Visa Millas*, *Visa Platinum*, *Visa Corporativa* and *Visa Link*). We entered into credit card agreements with Visa International and MasterCard International, which allowed us to issue Visa and MasterCard credit cards to our customers.

Credit card customers must have life insurance and have the option of having unemployment insurance. The method of payment of credit card loans is voluntary payments. All credit card agreements are subject to an annual review by us.

We plan to expand our credit card customer base. To attract new customers, we are working on an aggressive sales promotion plan to incentivize credit card usage and turnover; we have set up a virtual mall where customers are able to find and shop for exclusive products and have access to promotional discounts; we are also identifying new sales channels, such as call centers and outsourcing of sales; reducing the length of our credit card issuance process; and preparing a specialized customer service center to attend to our customers' needs.

As of June 30, 2014, our credit card portfolio included more than 23,425 credit card accounts, with a total aggregate balance outstanding of more than U.S.\$44.0 million.

As of June 30, 2014, 4.2% of our credit card portfolio was classified as doubtful (loans whose installment payments are in arrears by more than 90 days but less than 180 days) and 0.73% was classified as unrecoverable (loans whose installment payments are in arrears by more than 180 days but less than 360 days).

All of our credit card customers have a life insurance policy through Aseguradora Global, S.A. and have the option of obtaining a fraud insurance policy. Not all of our credit card customers purchase this or any fraud insurance policy.

Overdraft. Overdraft loans are loans made to consumer and corporate clients to offset short-term deficits in their checking accounts. As of June 30, 2014, our overdraft portfolio included had an aggregate balance outstanding of U.S.\$12.3 million.

Customer Deposits

Customer deposits provide us with a low-cost, diverse and stable source of funding. We offer a variety of customer deposit products, including demand deposits, savings deposits and time deposits that cover key consumer needs, positioning us as an attractive financial institution.

Time deposits represent our primary source of deposits and our overall primary source of funds. As of June 30, 2014, the aggregate balance of our customer banking deposit accounts represented 71.8% of our overall source of funds. For additional information on our customer deposits and our overall sources of funds, see "*Management's Discussion and Analysis of Financial Position and Results of Operation—Sources of Funds.*"

The following table sets forth the composition of our customer deposits as of June 30, 2014.

| | As of June 30, 2014 | | | |
|-------------------------------------|------------------------------------|---------------|-----------------------|---------------|
| | Amount (U.S.\$ in thousands) | Percentage | Number of Accounts | Percentage |
| Demand deposits | | | | |
| Domestic..... | 417,609 | 15.2% | 14,507 | 12.0% |
| Foreign | 44,158 | 1.6% | 731 | 0.6% |
| Total demand deposits..... | 461,768 | 16.8% | 15,238 | 12.6% |
| Time deposits | | | | |
| Domestic..... | 1,573,884 | 57.2% | 7,401 | 6.1% |
| Foreign | 128,089 | 4.6% | 375 | 0.3% |
| Total time deposits..... | 1,701,973 | 61.8% | 7,776 | 6.4% |
| Saving deposits | | | | |
| Domestic..... | 505,922 | 18.4% | 96,206 | 79.7% |
| Foreign | 82,324 | 3.0% | 1,425 | 1.2% |
| Total savings deposits..... | 588,245 | 21.4% | 97,631 | 80.9% |
| Total customer deposits..... | 2,751,986 | 100.0% | 120,645 | 100.0% |

Other Personal Banking Services

Other products and services offered by our retail banking division are designed to meet the specific needs of our retail customer base. These products include certified checks, ATMs, wire (international and local), ACH (automated clearing house), payment referrals, foreign currency services, trust services, insurance products, online banking and mobile banking.

Corporate Banking

Through our corporate banking division, we offer a full range of commercial banking products and services to large, medium and small-sized companies mainly in the commercial sector of Panama including commercial loans, agricultural loans, secured by pledge loans, overdrafts, transportation, loans to small medium enterprises and others, construction loans, leasing and factoring. We are the largest private lender to agricultural companies in Panama. Corporate banking serves more than 3,000 companies throughout Panama. As of June 30, 2014, our corporate banking loan portfolio amounted to U.S.\$2,344.7 million, representing 66.5% of our total loan balance.

The following table sets for the composition of our corporate loan portfoolio as of June 30, 2014, 2013 and 2012, respectively:

| | As of June 30, | | | | Change 2014/2013 |
|--|----------------|----------------|----------------|---|------------------|
| | 2014 | 2013 | 2012 | (U.S.\$ in millions except percentages) | |
| Commercial loans..... | 1,097.5 | 870.8 | 734.5 | 226.7 | 26.0% |
| Agricultural loans..... | 273.2 | 243.3 | 244.9 | 29.9 | 12.3% |
| Secured by pledge | 103.5 | 103.9 | 78.0 | (0.4) | (0.4)% |
| Overdraft | 104.4 | 91.3 | 74.7 | 13.1 | 14.3% |
| Transportation loans..... | 10.2 | 8.4 | 7.0 | 1.8 | 21.4% |
| Small-medium enterprises and others..... | 54.2 | 60.9 | 47.3 | (6.7) | (11.0)% |
| Construction loans..... | 469.7 | 359.2 | 256.5 | 110.5 | 30.8% |
| Leasing..... | 49.0 | 43.4 | 43.5 | 5.6 | 12.9% |
| Factoring | 183.0 | 205.3 | 216.0 | (22.3) | (10.9)% |
| Total | 2,344.7 | 1,986.5 | 1,702.4 | 358.20 | 18.0% |

Corporate Banking for Large Companies

Our corporate banking division is responsible for servicing customers with credit facilities exceeding U.S.\$1 million. Our target customers are large retailers (major department stores in Panama), distributors, car dealerships, import/export companies in the Colon Free Trade Zone (*Zona Libre de Colón*), energy sector (mostly hydroelectric projects), major sugar cane mills and major real estate developers (apartment buildings, office buildings, malls and housing developments, among others). For such customers, we offer a full range of products and services, including working capital finance, fixed assets finance, project financing, mortgage loans, standby letters of credit, and cash and investment management, among others. As of June 30, 2014, our principal balance of corporate banking for large companies amounted to U.S.\$1,374.6 million, representing 58.5% of the corporate banking division's total loan portfolio.

Corporate Banking for the Middle Market

Our middle market division serves customers with credit facilities under U.S.\$1 million. We focus on small to medium-sized, primarily family-owned businesses and offer working capital finance, fixed assets finance, project financing and cash and investment management, among other services. As of June 30, 2014, our corporate banking for the middle market amounted to U.S.\$704.5 million, representing 30.0% of the corporate banking division's total loan portfolio.

Corporate Banking for the Agricultural Sector

We are the leading lender among private banks in Panama in providing financial services to the Panamanian agricultural sector. We focus primarily on providing credit facilities to medium-sized and large agricultural producers in the western and central regions of Panama, representing 68.4% of our agricultural loan portfolio. We generally require land as collateral. Livestock producers represent the most important sector of this portfolio, amounting to U.S.\$170.1 million and representing 62.0% of the total agricultural loan portfolio as of June 30, 2014. Other important segments for our agricultural sector are producers of rice, coffee, sugar cane, bananas, pineapples, swine and shrimp.

As of June 30, 2014, the principal balance outstanding of agricultural loans amounted to U.S.\$273.2 million, representing 7.7% of our total loan portfolio.

Private Banking

Our private banking division provides consulting and account management services to high-net worth customers with deposits of U.S.\$250,000 or more. Products offered by our private banking division consist of: traditional private banking, including integral financial consulting, term deposits, savings accounts, checking accounts, credit and debit cards, secured loans, mortgages, overdrafts and fund transfer services; trust services, including trust administration, estate management and escrow accounts; and brokerage services, including financial consulting, local and international investment accounts, investment portfolio management, securities custody (in Panama, the United States (through Pershing LLC, a subsidiary of Bank of New York Mellon) and Switzerland (through EFG Bank), mutual funds portfolio management and structured notes. As of June 30, 2014, 2013 and 2012 the total amount of assets managed by the private banking division was U.S.\$2,714.1 million, U.S.\$2,469.3 million and U.S.\$1,657.8 million, respectively. As of June 30, 2014, private banking deposits represented 20.5% of our sources of funding.

We offer brokerage services through Global Valores, S.A., our wholly owned subsidiary. Global Valores, S.A. is a Panamanian corporation (*sociedad anónima*) authorized to operate as a brokerage firm by the National Securities Commission, predecessor to the Superintendency of Capital Markets. Global Valores, S.A. is a member of the Panamanian Stock Exchange and Latinclear (Central Latinoamericana de Valores). Global Valores, S.A. provides financial consulting, asset allocation, investment portfolio management, mutual funds portfolio management and wealth management services. Global Valores, S.A. has entered into distribution agreements with the world's largest banks and brokerage firms, allowing our customers to participate in international securities markets through both local and international custodial accounts.

Through Global Financial Funds Corporation, our wholly owned subsidiary incorporated under the laws of Panama, we offer trust administration services to our customers, such as guarantee trusts, investment trusts, administration trusts, real estate trusts, testamentary trusts and escrow accounts.

During the fiscal year ended June 30, 2014, Global Financial Funds Corporation managed assets of U.S.\$1,050.5 million.

Offshore Banking

We provide offshore banking services through Global Bank Overseas Limited, our wholly owned subsidiary incorporated pursuant to the laws of Montserrat, British West Indies in 2003. Global Bank Overseas Limited provides our clients offshore banking services and other services complementary to private banking, including checking accounts, money market accounts, savings accounts, term deposits, overdrafts and secured loans. Most of our offshore customers are located in Brazil, Colombia, Costa Rica, Honduras, Guatemala and Peru. As of June 30, 2014, Global Bank Overseas Limited managed assets of U.S.\$832.7 million.

Insurance

We offer insurance products and surety bonds through our wholly owned subsidiary, Aseguradora Global, S.A.

Aseguradora Global, S.A. began operations in the Panamanian market in September 2007 and is licensed to offer life insurance and general lines of business, as well as surety bonds.

Aseguradora Global, S.A. offers life insurance to cover the risks of consumer, mortgage and corporate loans made by us in case of death of the customer. The automobile insurance provided by Aseguradora Global, S.A. seeks to cover automobiles that we have financed. Aseguradora Global, S.A. also offers surety bonds to cover the operational risks associated with the business of Factoring Global, Inc. The fire insurance offered by Aseguradora Global, S.A. covers the risks of loss for mortgage loans we make. Lastly, we offer VISA fraud insurance to protect our VISA cardholders against the risk of fraud. Other products include accidental death and dismemberment insurance, unemployment insurance and sundry risk insurance.

With the exception of fraud insurance, all other risks insured by Aseguradora Global, S.A. are reinsured with some of the world's most recognized reinsurance companies.

During the fiscal year ended June 30, 2014, Aseguradora Global S.A. collected premiums in an aggregate amount of U.S.\$7.7 million.

Factoring

Through our wholly owned subsidiary, Factor Global, Inc., we have participated in the factoring business for more than 14 years. Factor Global, Inc. is the leader in factoring business in Panama and the main supplier of credit facilities to public infrastructure. Our factoring portfolio ranges from small companies with annual sales of less than U.S.\$100,000 to large multinational corporations engaged in infrastructure projects with the government, providing them invoice factoring and reverse factoring, among other services.

As of June 30, 2014, our factoring portfolio operations amounted to U.S.\$183.0 million.

Investment Banking

We began our investment banking operations in October 2011. Our initial strategy is to leverage our existing customer base and offer corporate finance advisory services and products, such as the structuring of mergers and acquisitions and syndicated loans, and the issuance of corporate bonds through the stock exchange of Panama. This newly created division will have a broad mission that is in line with our diverse client base. As of June 30,

2014, the investment banking division had successfully closed over 17 deals with a combined transaction value exceeding U.S.\$1.5 billion.

Distribution Channels

Points of Service

We provide financial products and services mainly through our branch network, ATMs, drive-through ATMs (*autobancos*), online banking, mobile banking, kiosks and call centers. As of June 30, 2014, we served our client base through a total of 32 branches nationwide, three loan centers, a network of 110 ATMs nationwide and ten drive-through ATMs.

Through our branch network, our clients conducted over 7.9 million transactions during the fiscal year ended June 30, 2013.

Based on points of service, including ATMs and drive-through ATMs, our geographic coverage and service infrastructure is the second largest among privately owned banks in Panama (excluding banks controlled by the Panamanian government and foreign banks).

Online, Call Centers and Telephone Banking

Through our web site (www.globalbank.com.pa), we offer Internet banking services in English and Spanish. At this website, our clients may conduct financial transactions 24 hours a day, seven days a week and find complete information on all banking and financial products and services we offer. Through our online banking, we provide services to over 28,734 clients, which conduct on average over 558,190 transactions each month.

We also offer services to our customers through our call center, including sales of personal loans and credit cards. The call center handles inbound (calls initiated by customers) and outbound (calls initiated by the call center) calls.

Through our mobile banking services, we allow our customers to perform balance checks of their accounts, conduct transfers between accounts, and make payments on their credit cards, among other services. Customers wishing to perform financial transactions through their cell phones must first inform us of their desire to do so. As of June 30, 2014, less than 1% of our clients were members of our mobile banking service plan.

Information Technology Unit

Our information technology unit is responsible for managing our technology infrastructure, telecommunications network and computer systems. The unit develops and evaluates in-house technological solutions and third-party software solutions. The information technology unit focuses on enhancing the timeliness of data processing, improving data protection and security, improving cost efficiency, developing contingency plans and implementing technology projects.

We have undertaken a major investment program in technology to provide a stable, secure platform for our operations, identify and better understand cost drivers, improve processes and adequately assess our profitability segments. This investment has allowed us to maintain an internal interconnection network capable of reducing the risk of network failure and providing stability to our system. The internal interconnection network is comprised of two data sites, one located in the main offices of our data center and used for our day-to-day operations, and one in Ciudad del Saber, near the city of Panama, which contains the same information found in our main data site and is used as a back-up system in the event of a failure.

Our technology investment budget was U.S.\$7.7 million for the fiscal year ending June 30, 2014 and is expected to increase to U.S.\$9.9 million for the fiscal year ending June 30, 2015. Projects included in this budget are an expansion of the processing capacity of the system to cope with our expected increase in transaction volume, improvements to central computing systems and significant overhauls in business applications, such as credit cards,

client acquisition, collections, direct deduction loans, small business banking, mortgages and accounting and administrative support.

As of June 30, 2014, our information technology network served approximately 1,150 workstations, 32 branches, three loan centers, 110 ATMs and ten drive-through ATMs. The network also processes consumer and corporate banking transactions.

Panamanian Banking Industry and Competition

The banking market in Panama is divided between state-owned banks and privately owned banks. State-owned banks are banks whose majority shareholder is the government of Panama. Privately owned banks are banks whose majority shareholder is a private person, corporation or other business organization. Privately owned banks require a license from the Superintendency of Banks to conduct banking business in Panama. There are three types of banking licenses that may be obtained: a general banking license, an international banking license and a representation banking license. We operate in Panama under a general banking license and we are allowed to carry out financial transactions both within and outside Panama. For additional information on banking licenses, see “Business—Panamanian Banking Regulations” below.

As of June 30, 2014, the following licenses had been granted in Panama:

| | Banks in Panama |
|--|-----------------|
| General License Banks ⁽¹⁾ | 50 |
| International License Banks..... | 27 |
| Total Banks | 77 |
| Representative Offices..... | 13 |

(1) Includes two state-owned banks (Banco Nacional de Panamá and Caja de Ahorros).

Source: *Superintendency of Banks*.

We compete in the banking market in Panama in the following segments: retail banking, commercial banking, offshore banking, investment and private banking, factoring and insurance. In recent years, new banks have entered the Panamanian banking market including Bancolombia S.A., which recently completed the acquisition of HSBC Bank (Panama) S.A. and Grupo Aval S.A. (Colombia’s largest financial conglomerate) which acquired BAC-Credomatic, one of Central America’s largest financial conglomerates, in 2010 and BBVA Panama in 2013. As of June 2014, our principal competitors were Banco Nacional de Panamá; Banco General, S.A.; Banistmo (Panama), Scotiabank (Panama); BAC (Panama); Banesco, Multibank and Scotiabank.

The following table sets forth selected data for our main competitors in the Panamanian banking market:

| | As of June 30, 2014 | | | |
|--|---------------------|---|----------|---|
| | Total Assets | Total Gross Loans (U.S.\$ in thousands) | Deposits | Deposits Market Share in Panama (%) |
| | | | | (U.S.\$ in thousands) |
| Global Bank Corporation ⁽¹⁾ | 4,440 | 3,714 | 2,874 | 4.6% |
| Banco Nacional de Panamá | 8,411 | 3,687 | 7,465 | 11.9% |
| Banco General, S.A. | 11,596 | 7,261 | 9,040 | 14.4% |
| Banistmo..... | 8,275 | 5,857 | 5,989 | 9.5% |
| Scotiabank | 2,635 | 2,044 | 2,509 | 4.0% |
| BAC (Panama)..... | 4,354 | 1,580 | 2,288 | 3.6% |
| Multibank | 3,167 | 1,981 | 2,153 | 3.4% |
| Total Panamanian Banking Market..... | 83,760 | 52,182 | 62,662 | 100.0% |

(1) Consolidated financial statements for the year ended June 30, 2014.

Source: *Superintendency of Banks*.

Facilities

As of June 30, 2014, we owned our headquarters offices, located at Calle 50, Torre Global Bank, Panama, Panama, Apartado Postal 0831-01843, six floors in the HSBC Tower in Panama, Panama and 14 of our 33 branches.

Legal Proceedings

We are routinely involved in legal proceedings arising in the ordinary course of business, most frequently as a plaintiff seeking recovery for overdue credits. We are also a defendant in a limited number of proceedings. These proceedings arise in connection with the ordinary course of our operations and do not materially impact our ability to conduct operations or meet our forecasted goals. As of June 30, 2014, we did not have any outstanding labor litigation.

Although it is difficult to accurately estimate the total amount of potential costs we may incur in connection with the legal proceedings in which we are a defendant, our management believes that the provisions for these proceedings are adequate to meet probable and reasonably estimated losses in the event of unfavorable court decisions. Furthermore, our management believes that none of the proceedings in which we are involved will, if decided adversely, individually or in the aggregate, have a material adverse effect on our operations or financial condition.

Employees

As of June 30, 2014, we had 1,402 employees. There is no labor union or collective bargaining agreement between us and our employees, and no employee is a member of any industry-wide union. We offer our employees benefits beyond those required by Panamanian Law.

All of our employees are eligible to receive year-end bonuses depending on their performance evaluation and the activities of the employee during the course of the year.

The following table sets forth the information concerning the current distribution of our human resources including our subsidiaries:

| | As of June 30, | |
|---------------------------|-----------------------|--------------|
| | 2014 | 2013 |
| General Management..... | 991 | 891 |
| Branches | 411 | 456 |
| Total..... | 1,402 | 1,347 |
| Permanent Employees | 1,396 | 1,331 |
| Temporary Employees..... | 6 | 16 |
| Total..... | 1,402 | 1,347 |

Material Contracts

The following is a description of our most significant contracts, other than contracts we entered into in the ordinary course of our business.

Agreement with Visa International and MasterCard International

We have entered into credit card agreements with Visa International and MasterCard International that allow us to issue Visa and MasterCard credit cards to our customers.

Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) Loan Agreement

In May 2011, we entered into a U.S.\$25 million loan with DEG to finance the expansion of our residential mortgage loan portfolio. The interest on the loan accrues at a variable interest rate and the loan matures in May 2020.

Citigroup Trust – Delaware, N.A. Loan Agreement

In March 2011, we entered into a U.S.\$40 million long-term credit agreement with Citigroup Trust Delaware, N.A. to increase and lengthen our funding base. Under the terms of the agreement, disbursements are made in two tranches, tranche A and tranche B. Tranche A amounts to U.S.\$30 million and matures in March 2019. Tranche B amounts to U.S.\$10 million and matures in March 2016. Both tranches accrue at a variable interest rate. Tranche A is guaranteed by the Overseas Private Investment Corporation (OPIC).

Revolving Credit Line from Corporación Andina de Fomento (CAF)

In October 2010, we entered into a U.S.\$10 million short-term revolving credit line agreement with CAF to finance short-term credit facilities for foreign trade transactions, working capital and investment projects. The line of credit has a one-year term renewable by CAF on an annual basis with a tenure of five years. Interest accrues at LIBOR plus a margin to be determined by CAF on each disbursement. In August 2013, CAF increased the amount of the revolving credit line to U.S.\$30 million.

Revolving Credit Line from Banco Nacional de Panamá

In December 2009, we obtained a U.S.\$75 million secured revolving credit line from Banco Nacional de Panamá, as trustee under the Panamanian Financial Stimulus Program (*Programa de Estímulo Financiero* (PEF)). The revolving credit line is for up to a five-year term renewable by Banco Nacional de Panamá on an annual basis.

Credit Suisse International Loan Agreement

In June 2013, we entered into a U.S.\$50 million loan agreement with Credit Suisse International to finance our day-to-day operations. The loan agreement is guaranteed with certain of our investments. The interest rate under the loan is both variable and fixed depending on the specific exchange period contemplated. The agreement expires in June 2014.

EFG Bank Loan Agreement

In March 2012, we entered into a U.S.\$75 million loan agreement with EFG Bank for working capital. The interest on the loan accrues at a variable interest rate and the loan matures in March 2016.

Citibank N.A. – Syndicated Loan

In June 2014, we entered into a U.S.\$104 million medium-term credit agreement. Under the terms of the agreement, disbursements are made in two tranches, tranche A and tranche B. Tranche A amounts to U.S.\$71.4 million and matures in June 2016. Tranche B amounts to U.S.\$32.6 million and matures in June 2017. Both tranches accrue at a variable interest rate.

Recent Developments

On September 25, 2014, we signed a binding purchase agreement to acquire 100% of the outstanding shares of Progreso-Administradora Nacional de Inversiones, Fondos de Jubilacion y Cesantias, S.A. (“Progreso”) for U.S.\$27.0 million. The transaction is expected to close upon receipt of regulatory approvals by the Superintendency of Banks and the Superintendency of Capital Markets. Progreso is one of two pension fund administrators in Panama with approximately U.S.\$603.0 million in assets under management. We expect to generate potential cross-selling opportunities from Progreso’s extensive data base of customers.

MANAGEMENT

Directors

Our management is entrusted to the Board of Directors (*Junta Directiva*) (the “Board of Directors”). The Board of Directors approves and supervises the management and senior executive teams, defines our strategy, ensures an adequate yield on our investments and prevents conflicts of interest. Our Board of Directors is also in charge of the approval of our strategy, business plan, risk policy, annual budget, credit and investment policy and acquisitions.

As of June 30, 2014, our Board of Directors was composed of 11 directors and 7 alternates, who together hold over 75.5% of the common stock outstanding of G.B. Group Corporation. All of the directors are Panamanian residents. Seven of the eleven directors were also our founding members. Two of the eleven directors must be independent members in accordance with the regulations of the Superintendency of Banks.

There are no service agreements between us and our Directors and there are no potential conflicts of interest of the members of the Board of Directors between their duties to us and their private interests and/or other duties. The business address of each of the members of the Board of Directors and our executive officers is our registered address.

The following table sets forth the composition of our Board of Directors, as of June 30, 2014:

| Name | Date of Birth | Member Since |
|------------------------|-------------------|-------------------|
| Jorge Vallarino Strunz | November 2, 1951 | December 29, 1993 |
| Domingo Díaz A. | November 27, 1938 | December 29, 1993 |
| Alberto Eskenazi | May 5, 1966 | December 29, 1993 |
| Ishak Bhikú R. | November 28, 1954 | December 29, 1993 |
| Bolívar Vallarino | April 14, 1949 | December 29, 1993 |
| Benedicto Wong | April 3, 1927 | December 29, 1993 |
| Alberto R. Dayan | April 4, 1956 | January 6, 2004 |
| Otto O. Wolfschoon Jr. | December 27, 1959 | April 26, 1994 |
| Eddy René Pinilla | December 26, 1945 | June 9, 2011 |
| Alberto Alemán Zubietá | May 26, 1951 | June 5, 2013 |
| Larry E. Maduro | April 24, 1959 | June 17, 2014 |

Jorge Vallarino Strunz served as Chairman of the Board of Directors from December 1993 to August 2008. Since December 1993, he has also served as our Chief Executive Officer and Legal Representative. Mr. Vallarino Strunz began his career at Citibank Panama in 1976, occupying various positions during his career, including director of the investment banking department of Citibank in Panama and Central America (1981-1983); treasurer of the trading desk of the investment banking department in Mexico City (1985-1987); and regional treasurer for Latin America and Canada (1988). Mr. Vallarino Strunz has also served as the vice-president responsible for the treasury, capital markets and foreign trade departments of Chase Manhattan Bank in Mexico City (1988-1990) and as executive director of the Capital Markets department of Casa de Bolsa México, S.A. de C.V. (1990-1993). Mr. Vallarino Strunz currently serves as Director of “Fondo de Ahorro de Panamá”. Mr. Vallarino Strunz was one of the founders of Global Bank Corporation. Mr. Vallarino Strunz was born on November 2, 1951 and holds a bachelor’s degree in mechanical engineering with specialization in industrial engineering from the University of Notre Dame and a Masters in Business Administration from INCAE in Managua, Nicaragua.

Domingo Díaz A. served as our Vice President, Secretary and Legal Representative since December 1993. Since June 2014, he has been our Chairman of the Board of Directors and Legal Representative. Mr. Díaz is a partner of the law firm Icaza, González, Ruiz & Alemán. Mr. Díaz has been a member of the Labor Union Board of the University of Panama (1966-1968) and is currently a member of the board of directors of Alambres y Cables de Panamá, S.A., Compañía Internacional de Seguros, S.A., Créditos Internacionales, S.A., Inversiones Abattoir, S.A., Phillips Petroleum International Corporation and Warner Lambert de Panamá, S.A. He is a member of the American

Chamber of Commerce (Panama), the American Foreign Law Association, the Colegio Nacional de Abogados, a founding partner of the Rotary Club of South Panama and a member of Grupo INDESA. Mr. Diaz was born on November 27, 1938 and holds a law degree from Tulane University School of Law.

Alberto Eskenazi has been our Treasurer and a member of our Board of Directors since December 1993. He currently serves as the chief financial officer of Grupo Corporación Gadol, Lafayette Zona Libre and Grupo Piazza. Mr. Eskenazi is a founding member and director of Hospital Punta Pacífica and a member and vice-president of the Asociación de Beneficencia Hadassa Panamá. Mr. Eskenazi was born on May 5, 1966 and holds a bachelor's degree in Economics and Finance from Babson College.

Ishak Bhikú R. has been our Deputy Treasurer since December 1993. Mr. Bhikú is a member of the Board of Directors of Administración Consolidada, S.A., Salomón I. Bhikú, S.A., Omar Bhikú, S.A., Magna Corporation, B.C., S.A., Multifinanciera Istmeña, S.A., Bavarian Leasing, S.A. and a member of the Chamber of Commerce, Industry and Agriculture of Panama and of the Islamic Foundation of Panama. Mr. Bhikú was born on November 28, 1954 and holds a bachelor's degree in business administration with specialization in marketing and small enterprises from McGill University.

Bolívar Vallarino S. served as our Deputy Treasurer since December 1993. Since June 2014, he has been our Secretary and Legal Representative. He is also the vice president of operations of Empresas Arrocha, S.A. Mr. Vallarino was born on April 14, 1949 and graduated from the Colegio Militar Leoncio Prado, Lima, Peru. He is the brother of Mr. Jorge Vallarino Strunz.

Benedicto Wong served as our Deputy Secretary since December 1993. Since June 2014, he has been Vice President. Mr. Wong is the president and general manager of Agencias Benedicto Wong, S.A., Alimentos Superiores de Panamá, S.A., Insecticidas Superiores de Panamá, S.A. and Inmobiliaria Wong, S.A. He is a member of the Chamber of Commerce, Industry and Agriculture of Panama and of the Panamanian Industrial Union. Mr. Wong was born on April 3, 1927.

Alberto R. Dayan has been a member of our Board of Directors since January 2004. He received training in technical, administrative, marketing and corporate levels in industrial clothes manufacturing facilities of Phillips Van Heusen Corporation in Alabama, Pennsylvania and New York. Mr. Dayan is the managing director and owner of Onix Trading Co., S.A., Raylin Investment Company, S.A. and New Apparel, S.A. Mr. Dayan was a founding member of Global Bank Corporation and is an active member of B'nai B'rith (benefit association) and the Chamber of Commerce and Industry. He is also a member of the board of directors of the Instituto Alberto Einstein. Mr. Dayan was born on April 4, 1956 and holds a bachelor's degree in Industrial and Systems Engineering (1977) from the Georgia Institute of Technology and an MBA with a specialization in Finance from Georgia State University.

Otto O. Wolfschoon Jr. has been a member of our Board of Directors since April 1994. Prior to joining us, Mr. Wolfschoon worked in Chase Manhattan Bank Panama, Puerto Rico and New York, where he served as manager of shipping industry banking, electronic banking, corporate finance and free zone portfolio. From 1991 to 1993, Mr. Wolfschoon served as credit manager of Bank of Boston in Panama. Mr. Wolfschoon was born on December 27, 1959 and holds a bachelor's degree in economics from the University of Panama and an MBA from New York University.

Eddy René Pinilla has been an independent member of our Board of Directors since June 2011. Mr. Pinilla has served as the chief economic advisor of the Household and Urbanism Institute of Panama and as chief economic advisor of the Ministry of Commerce and Industry of Panama. Mr. Pinilla began his professional banking activities at Citibank, where he served, among others, as manager of the corporate banking department of Citibank Panama; as deputy vice-president of trade-finance of Latin America of Citibank New York; as vice president of credit for Latin America of Citibank New York; as vice-president of business risk for Mexico, Central America and the Caribbean of Citibank Mexico; and as senior risk manager of the investment banking department of Citibank Mexico. Mr. Pinilla also served as executive director and founding shareholder of Banco Alianza in Mexico and as a senior vice-president of credit for Latin America, Asia, Eastern Europe and Russia for Lehman Brothers in New York. Mr. Pinilla was born on December 26, 1945 and holds a bachelor's degree in economics from Dakota Wesleyan University, a master's degree in economics from Southern Illinois University and an MBA from the INCAE.

Alberto Alemán Zubieta has been an independent member of our Board of Directors since June 2013. Mr. Alemán Zubieta began his professional career in the construction field. For many years, he served as CEO of one of the largest construction companies in the Republic of Panama. From 1996 to 1999, he served as administrator of the former Panama Canal Commission, the United States federal government agency that was responsible, until December 31, 1999, for the administration and operation of the Panama Canal. In 1998, two years into his appointment as head of the Panama Canal Commission, he was appointed administrator of the Panama Canal Authority, the Panamanian entity tasked with the administration of the waterway upon its transfer to the Republic of Panama, on December 31, 1999. During the following two years, he served simultaneously as administrator for both the Panama Canal Commission and the Panama Canal Authority, ensuring that the decisions taken under the Panama Canal Commission would have continuity under the Panama Canal Authority. In 2005, the Board of Directors re-elected him to lead the Panama Canal Authority for another seven years, a position he held until September 3, 2012. Mr. Alemán Zubieta was born on May 26, 1951 and graduated from the civil and industrial engineering schools of Texas A&M University.

Larry E. Maduro has been our Deputy Treasurer since June 2014. Mr. Maduro is the Vice President of Agencias Feduro Panama, President of Agencias Feduro Costa Rica and Feduro International. Mr. Maduro is a member of our Board of Directors and the board of directors of Colon Import and Export and Bristol Hotels. Mr. Maduro was born on April 24, 1959 and holds a bachelor's degree in Business from The Wharton School of Business and an MBA from the University of Chicago.

Executive Officers

The following table sets forth the information concerning our principal officers:

| Name | Position | Date of Birth | Date Appointed |
|------------------------|---|----------------------|-----------------------|
| Jorge Vallarino Strunz | Executive President and Legal Representative | November 2, 1951 | December 29, 1993 |
| Otto O. Wolfschoon Jr. | Executive Vice President of Corporate Credit | December 27, 1959 | February 1, 1994 |
| Jorge E. Vallarino M. | Executive Vice President of Finance | September 8, 1977 | July 20, 2009 |
| Juan Barragán | Senior Vice President of Retail Banking | April 7, 1966 | January 1, 2008 |
| Osvaldo Borrell | Senior Vice President of Corporate Banking, Metropolitan Area | November 2, 1955 | January 1, 2008 |
| Mónica de Chapman | Senior Vice President of Private and Investment Banking | December 17, 1966 | August 1, 2010 |
| Rafael Guardia | Senior Vice President of Corporate Banking | April 16, 1972 | January 1, 2008 |
| Miguel Gascón | Senior Vice President of Technology, Operations and Processes | October 15, 1969 | July 1, 2009 |
| Hernán H. Hernández | Senior Vice President of Credit and Risk | May 30, 1960 | September 1, 2009 |
| Dagmar Flores | Senior Vice President of Internal Audit | June 7, 1974 | September 1, 2009 |

| Name | Position | Date of Birth | Date Appointed |
|----------------|--|--------------------|------------------|
| Lorena Guzmán | Senior Vice President of Human Resources | December 1, 1971 | October 15, 2009 |
| Carlos Mouynes | Vice President of Investment Banking | September 25, 1976 | October 17, 2011 |

Jorge Vallarino Strunz has served as our Executive President and Legal Representative since December 1993. Mr. Vallarino Strunz began his career at Citibank Panama in 1976, occupying various positions during his career, including director of the investment banking department of Citibank in Panama and Central America (1981-1983); treasurer of the trading desk of the investment banking department in Mexico City (1985-1987); and regional treasurer for Latin America and Canada (1988). Mr. Vallarino Strunz has also served as the vice-president responsible for the treasury, capital markets and foreign trade departments of Chase Manhattan Bank in Mexico City (1988-1990) and as executive director of the Capital Markets department of Casa de Bolsa México, S.A. de C.V. (1990-1993). Mr. Vallarino Strunz currently serves as Director of “Fondo de Ahorro de Panamá”. Mr. Vallarino Strunz was one of the founders of Global Bank Corporation. Mr. Vallarino Strunz was born on November 2, 1951 and holds a bachelor’s degree in mechanical engineering with a specialization in industrial engineering from the University of Notre Dame and a Masters in Business Administration from the INCAE in Managua, Nicaragua.

Otto O. Wolfschoon Jr. has served as a Member of our Board of Directors since April 1994. Prior to joining us, Mr. Wolfschoon worked in Chase Manhattan Bank Panama, Puerto Rico and New York, where he served as manager of shipping industry banking, electronic banking, corporate finance and free zone portfolio. From 1991 to 1993, Mr. Wolfschoon served as credit manager of Bank of Boston in Panama. Mr. Wolfschoon was born on December 27, 1959 and holds a bachelor’s degree in economics from the University of Panama and an MBA from New York University.

Jorge E. Vallarino M. has served as our Executive Vice-President of Finance since July 2009. Mr. Vallarino has worked as an investment officer at MMG Capital Holdings in Panama; as an associate in the department of debt capital markets of Latin America of Merrill Lynch & Company in New York; and as vice-president of the investment banking department of Merrill Lynch Mexico. Mr. Vallarino was born on September 8, 1977 in Panama. He is the son of Jorge Vallarino Strunz. Mr. Vallarino currently serves as Director of Tagaropoulos, Rey Holding and the Panama Stock Exchange. Mr. Vallarino holds a bachelor’s degree in arts and economics from Stanford University and an MBA from Duke University.

Juan Barragán has served as our Senior Vice President of Retail Banking since January 2008. His professional activity began as credit analyst and financial analyst of MBNA America, N.A. in Delaware. He has also served as commercial credit and consumer manager of Chase Manhattan Bank in Panama; as deputy vice-president of Primer Banco de Ahorros (PRIBANCO); as first deputy vice president of consumer credit and vice president of the consumer credit and collections department of Banco Continental of Panama. Mr. Barragán was born on April 7, 1966 and holds a degree in business administration from Saint Joseph’s University.

Osvaldo Borrell has served as our Senior Vice President of Corporate Banking for our metropolitan area since January 2008. Prior to joining us, Mr. Borrell served as a director of the agriculture department of Banco Nacional de Panama and as credit officer of the corporate, commercial and industrial credit departments and manager of the Colon branch of Banco Internacional de Panama. Mr. Borrell has also served as executive director of Grupo Nasa Zona Libre y Panamá. Since 1998, Mr. Borrell has been a professor of various business and banking-related courses at the Universidad Latinoamericana de Ciencias y Tecnología and at the Universidad Latina. Mr. Borrell was born on November 2, 1955 and holds a bachelor’s degree in biology from the University of Panama and an MBA with specialization in Marketing and Finance from the Universidad Latinoamericana de Ciencias y Tecnología.

Mónica de Chapman has served as our Senior Vice President of Private Banking since August 2010. Prior to joining us, Ms. Chapman worked for various banking institutions occupying various positions, including executive officer of marketing at Banco General; as officer and manager and vice-president of the private banking

department at Banco Continental; as general director of the Asociación de Agente Vendedores de Valores of the Central Latinoamericana de Valores, S.A.; and as general director of the Foundation for the Development and Education of the Capital Markets (FIDEMEC). Ms. Chapman is a director of the Chamber of Issuers (*Cámara de Emisores*) of Panama and has served as president of the board of directors of said institution. Ms. Chapman was born on December 17, 1966 in Panama and holds a bachelor's degree in business administration from George Washington University and an MBA from the INCAE.

Rafael Guardia has served as our Senior Vice President of Corporate Banking since January 2008. Prior to joining us, Mr. Guardia served as credit manager of Banco Comercial de Panama and Primer Banco del Itsmo. Mr. Guardia has also served as deputy vice president of corporate banking and branches of Banco Cuscatlán. Mr. Guardia was born on April 16, 1972 in Panama and holds a bachelor's degree in finance from Florida State University and an MBA from Nova Southeastern University.

Miguel Gascón has served as our Senior Vice President of Technology, Operations and Processes since July 2009. Prior to joining us, Mr. Gascón worked as supervisor of the systems department at Lloyds Bank PLC. Mr. Gascón was born on October 15, 1969 in Panama and holds a bachelor's degree in computational systems engineering from Universidad Tecnológica de Panama and an MBA with specialization in finance from the ULACIT. He is currently in the process of obtaining a master's degree in computational science from Universidad Tecnológica de Panama.

Dagmar Flores has served as our Senior Vice President of Internal Audit since September 2009. Prior to joining us, Ms. Flores served as manager and deputy vice president of internal audit of Banco Continental, and as senior auditor of KPMG. Ms. Flores is an authorized public accountant and an authorized public interpreter from Spanish to English. Ms. Flores was born on June 7, 1974 in Panama and holds a bachelor's degree in accounting from Universidad Santa María la Antigua and an MBA, with specialization in new businesses, from Universidad de Louisville in Panama.

Hernán H. Hernández has served as our Senior Vice President of Credit and Risk since September 2009. Prior to joining us, Mr. Hernández served as deputy vice-president of risk of Banco General and Bancomer. Mr. Hernández was born on May 30, 1960 in Panama and holds a bachelor's degree in economics from the Universidad Federal de Paraná, Brasil and a master's degree in Corporate Economics from INCAE in Costa Rica.

Lorena Guzmán has served as our Senior Vice President of Human Resources since 2009. Prior to joining us, Ms. Guzmán served as training advisor for CEMEX; as sub-manager of development and training and vice-president of human resources of Citibank Panama and Costa Rica; and as vice president of human resources of Stanford Bank. Ms. Guzmán was born on December 1, 1971 in Mexico. Ms. Guzmán holds a bachelor's degree in information systems from the Instituto Tecnológico y de Estudios Superiores de Monterrey.

Carlos R. Mouynes has served as our Vice President of Investment Banking since October 2011. Prior to joining us, Mr. Mouynes worked as Vice President in the Private Equity investment department of the Motta Family Office in Panama. Mr. Mouynes also worked in the Financial Sponsors, Retail and Healthcare Groups for JPMorgan in New York and Los Angeles. Mr. Mouynes was born on September 25, 1976 in Panama and holds a bachelor's degree in business administration from Villanova University and an MBA from the University of North Carolina at Chapel Hill.

Compensation

Our executive officers are compensated on a bi-weekly basis based on salaries agreed in advance under their employment agreement. Our directors are compensated for each meeting they attend. The amount of compensation is decided by the directors of G.B. Group Corporation, our sole shareholder. Our Board of Directors determines the compensation of the General Manager and delegates to the latter the decision to determine the compensation of our other key executives.

For the fiscal year ended June 30, 2014, the total amount of compensation paid to our executive officers and our directors amounted to U.S.\$2.8 million. We do not offer any stock option plan to our directors.

Board Committees

Our Board of Directors is divided into two committees: the risk assessment committee and the audit committee. We have also established a variety of committees designed to better integrate our policies and strategies, including the executive committee, the credit policy committee, the assets and liabilities committee, and the investment committee.

Risk Assessment Committee

Our risk assessment committee is composed of four board members, including one independent director who acts as president of the committee. In addition, the Executive President, the Executive Vice President of Corporate Credit, the Executive Vice President of Finance, and the Senior Vice President of Credit Risk participate as guests.

Our risk assessment committee generally meets every two months and is involved in all risk-related matters including the review of the results of audit reports on the loan portfolio, the evaluation of our investment portfolio diversification, the evaluation of the default rate of our portfolio and the review of our reserves, accounting qualifications and exposure to customer risk. The risk assessment committee is also responsible for setting forth risk models to mitigate and control our risk exposure and for complying with Basel II regulations.

Audit Committee

Our audit committee is composed of five members. The current members of the audit committee are the Chairman, the Treasurer and the three Deputy Treasurers of the Board of Directors.

Our audit committee generally meets every two months and is responsible for the final approval of our internal audits and the supervision of our assets; our compliance with internal requirements, policies and procedures; the supervision of adequate registration, documentation and approval of all transactions in which we are involved; the identification and review of procedural deficiencies; the review and implementation of risk mitigation procedures; and the evaluation and correction of work allocation, among others.

Executive Committee

Our executive committee is composed of ten members, including the Executive President, the Executive Vice President of Corporate Credit, the Executive Vice President of Finance, the Senior Vice President of Retail Banking, the Senior Vice President of Private Banking, the Senior Vice President of Technology, Operations and Process, the Senior Vice President of Human Resources, the General Manager of Aseguradora Global S.A., the Senior Vice President of Internal Audit, and the Senior Vice President of Credit and Risk.

Our executive committee generally meets once every month. It is responsible for implementing our business plan and strategy and supervising the execution of our policies and operational guidelines set forth by the Board of Directors.

Credit Policy Committee

Our credit policy committee is composed of six members, including the Executive President and Legal Representative, the Executive Vice President of Corporate Credit, the Senior Vice President of Corporate Banking for the Metropolitan Area and the Senior Vice President of Corporate Banking. The Senior Vice President of Credit Risk and the Vice President of Credit participate as guests.

Our credit policy committee meets every week and is responsible for reviewing and approving loans greater than U.S.\$200,000 and up to U.S.\$1 million and for recommending to the Board of Directors the approval of loans exceeding such amount. The credit policy committee is also responsible for reviewing and recommending to the Board of Directors general credit policies and procedures to be followed by us.

Assets and Liabilities Committee

Our assets and liabilities committee is composed of seven members, including the Executive President and Legal Representative, the Executive Vice President of Corporate Credit, the Senior Vice President of Finance, the Senior Vice President of Credit and Risk Audit, and the Executive Vice President of Private Banking.

Our assets and liabilities committee meets once a month or more often if the circumstances so require it and is responsible for reviewing and recommending to the Board of Directors all policies and procedures related to the management of assets and liabilities to meet profitability, liquidity, and market risk control objectives. As part of its responsibilities, the committee reviews and recommends to the Board of Directors, among other things, policies related to our funding strategies, interest rate and liquidity gaps, liquidity investments, securities investments, and market risk exposure.

Investment Committee

Our investment committee is composed of six members, including, among others, the Executive President and Legal Representative, the Executive Vice President of Corporate Credit, the Executive Vice President of Finance, the Senior Vice President of Credit and Risk Audit, the Senior Vice President of Retail Banking and the Senior Vice President of Internal Audit.

Our investment committee meets when circumstances so require and is responsible for the review and recommendation to the Board of Directors of policies related to our investments. The investment committee also supervises our investment portfolio and the implementation of the investment policies set forth by the Board of Directors.

Corporate Governance

Our corporate governance practice complies with the principles, provisions and guidelines set forth in Ruling 4-2011 of 5 September 2011 issued by the Superintendency of Banks; Ruling CNV-12-2003 issued by the National Securities Commission, predecessor of the Capital Markets Superintendency of Banks; and the guidelines issued by the Panamanian Stock Exchange. Our corporate governance policies seek to implement the resolutions and strategic plans of the Board of Directors with adequate internal controls, transparency, disclosure of information, protection of minority shareholders and rights of third parties.

We do not have a corporate governance committee. We address all corporate governance matters at the Board of Directors' meetings.

PRINCIPAL SHAREHOLDERS

As of June 30, 2014, we had 100,000 common shares outstanding all of which has been fully paid. As of June 30, 2014, we had redeemed all our outstanding preferred shares. Currently, 100% of our outstanding common shares are owned by G.B. Group Corporation.

The following table sets forth information regarding the record and beneficial ownership of G.B. Group Corporation's capital stock as of June 30, 2014.

| | June 30, 2014 | | |
|--|--------------------------|-----------------------------|------------------------|
| | Number of Shares | Percentage of Capital Stock | Number of Shareholders |
| Directors (including alternates) and Executive Officers of Global Bank Corporation ⁽¹⁾⁽²⁾ | 11,783,145 | 75.5% | 22 |
| Other shareholders ⁽¹⁾ | 3,823,670 | 24.5% | 21 |
| Total | <u>15,606,815</u> | <u>100.0%</u> | <u>43</u> |

(1) None of G.B. Group Corporation's shareholders own more than 13% of the outstanding shares of G.B. Group Corporation.
 (2) Nine of the 11 members of Global Bank Corporation's Board of Directors are also shareholders; two of the 11 members are independent directors.

RELATED PARTY TRANSACTIONS

We engage in a variety of transactions with certain of our subsidiaries. All material transactions between us and G.B. Group Corporation or any subsidiary or related parties are evaluated by senior management and our Board of Directors in accordance with the regulations of the Superintendency of Banks and internal guidelines applicable to all third party transactions.

We extend loans to related parties, including to our executive officers and directors in accordance with Panamanian law and regulations established by the Superintendency of Banks. Under Panamanian law, a bank or a bank-holding company may not grant loans or issue guarantees or any other obligation to a related party exceeding 5% of its total capital funds, in the case of unsecured transactions, or 10% of its total capital funds, in the case of collateralized transactions (other than loans secured by deposits in the bank). Further, a bank may not grant to its applicable related parties loans or other credit facilities secured solely with the shares of such bank or bank holding company; if the applicable related party is an employee, a bank may not grant unsecured and unguaranteed loans or credit facilities to such employee in an amount exceeding the annual salary of such employee; and a bank may not grant loans or other credit facilities underpriced or with terms that are more favorable than those found in the market.

For these purposes, a related party is: (i) one or more of the bank's directors, (ii) any stockholder of the bank who directly or indirectly owns at least 5% of the voting shares of the bank or bank-holding company, (iii) any company of which one or more of the bank's directors is a director or officer or where one or more of the bank's directors is a guarantor of the loan or credit facility, (iv) any company or entity in which the bank or any one of its directors or officers can exercise a controlling influence, (v) any company or entity in which the bank or any one of its directors or officers owns 20% or more of the voting shares and (vi) the managers, officers and employees of the bank or their respective spouses (other than home mortgage loans or guaranteed personal loans under general programs approved by the bank for employees). The Superintendency of Banks currently limits the total amount of loans, credit facilities, guarantees or any other obligations (other than credit facilities fully secured by deposits in the bank) granted by a bank or the ultimate parent of a banking group to related parties exceeding 25% of the total consolidated regulatory capital of the bank. In accordance with Article 96 of the Banking Law, the following loans are not computed when determining the 25% threshold: loans guaranteed 100% by cash, mortgage loans used for the purchase or construction of the borrower's primary residence, and personal loans guaranteed by a mortgage.

For additional information about related party transactions, see note 7 to our consolidated financial statements as of June 30, 2014 included in this offering memorandum.

The following table sets forth a description of the loans entered with related parties that compute for the regulatory thresholds described in the Banking Law:

| As of June 30, 2014 | | | | |
|--|--|--|---|-----------------------------------|
| | Total amount of the loans in U.S.\$ | Amount computed for the 25% threshold | % over consolidated regulatory capital | % over consolidated assets |
| Directors and Key Personnel ⁽¹⁾ | 5,608,805.5 | 1,824,189.2 | 0.4% | 0.1% |
| Other Employees | 18,544,144.7 | 2,712,578.8 | 0.6% | 0.4% |
| Other Related parties ⁽²⁾ | 73,535,311.5 | 47,427,985.8 | 10.4% | 1.6% |
| Total | 97,688,261.7 | 51,964,753.8 | 11.4% | 2.2% |

(1) With the exception of our independent directors, all directors are our direct or indirect shareholders.

(2) Includes enterprises in which a substantial interest is owned by directors, key management personnel or shareholders of the G.B. Group Corporation.

REGULATORY MATTERS

General

We operate in Panama under a general banking license issued by the National Banking Commission, predecessor of the Superintendence of Banks. Banks operating under a general banking license (the “General License Banks”) may engage in all banking-related activities in Panama, including taking local and offshore deposits, as well as making local and international loans.

Decree Law No. 2, dated February 22, 2008, as consolidated under Executive Decree 52 of April 30, 2008 and all regulations and accords issued thereunder (the “Banking Law”) governs banking institutions in Panama.

According to the Banking Law, the Superintendence of Banks is the regulatory body responsible for the implementation and enforcement of the Banking Law in Panama and the supervision and regulation of all banks domiciled in Panama and no person may engage in the banking business in or from Panama without having been properly licensed and authorized by the Superintendence of Banks. Under the Banking Law, three types of licenses may be issued:

- General Banking License, which allows an entity to engage in banking activities in Panama, as well as carry out transactions that are executed, performed or take effect outside Panama and perform any other activity authorized by the Superintendence of Banks.
- International Banking License, which allows the bank to engage from an office established within Panama transactions that are perfected, consummated or have their desired effect outside the territory of Panama and perform any other activity authorized by the Superintendence of Banks.
- Representation Banking License, which allows licensed foreign banks to establish representation offices in Panama and perform any activity authorized by the Superintendence of Banks.

The Superintendence of Banks has the authority to grant and revoke banking licenses, set capital and liquidity ratio requirements, decide on the liquidation, intervention, merger or reorganization of any bank, decide on the removal of executive officers of any bank, impose sanctions on banks, and issue secondary rules and regulations in accordance with the Banking Law.

The Superintendence of Banks has signed and executed agreements or letters of understanding with 26 foreign supervisory authorities for the sharing of supervisory information under the principles of reciprocity, appropriateness, national agreement, and confidentiality. These 26 entities include the U.S. Federal Reserve Board, the Office of the Comptroller of Currency of the Treasury Department, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision and the Office for Savings Supervision. In addition, the Statement of Cooperation between the United States and Panama promotes cooperation between U.S. and Panamanian banking regulators and demonstrates the commitment of the U.S. regulators and the Superintendence of Banks to the principles of comprehensive and consolidated supervision.

Banking Supervision and Regulation

Banking regulations on capital adequacy in Panama take into account the recommendations of the Basel Committee. The Superintendence of Banks has adopted and implemented various guidelines under Basel II through the Banking Law and various regulations, principally Accord 5-2008 as amended to date. The Superintendence of Banks has not given an indication as to which Basel III guidelines, if any, will be adopted in Panama and the timing for adoption and implementation thereof.

Capital Adequacy Requirements – Basel II

Under the Banking Law, a bank's capital is composed of primary, secondary and tertiary capital.

- *Primary Capital.* Includes paid-in capital, declared reserves and retained earnings. The components of paid-in capital are common stock and non-cumulative preferred stock issued and fully paid. Declared reserves are those reserves established by us from time to time. Retained earnings are earnings that have not been distributed during current or previous periods.
- *Secondary Capital.* Includes hybrid capital and debt instruments, subordinated debt and certain provisions for possible loan losses.
- *Tertiary Capital.* Includes short-term subordinated debt incurred for the management of market risk.

General License Banks must have paid-in capital of not less than \$10 million. Additionally, they must maintain a minimum total capital of 8% of their total risk-weighted assets and off balance sheet operations that represent contingency to the bank, and primary capital must be equal to or greater than 4% of the bank's risk-weighted assets and off balance sheet operations that represent a contingency to the bank. The Superintendency of Banks may now take into account market risks, operational risks and country risks, among others, to evaluate capital adequacy standards. The Superintendency of Banks is authorized to increase the minimum capital requirement percentage in Panama in case it deems appropriate to do so.

Liquidity

General License Banks are currently required to maintain 30% of their global deposits in liquid assets (which include short-term loans to other banks and other liquid assets) of the type prescribed by the Superintendency of Banks. Additionally, General License Banks are required to maintain assets in Panama of no less than 85% of their local deposits or any other percentage fixed by the Superintendency of Banks. Under the Banking Law, deposits from central banks and other similar depositories of the international reserves of sovereign states are immune from attachment or seizure proceedings.

Lending Limits

Under the Banking Law, banks, their holding companies and any other affiliates of the bank are prohibited from granting, directly or indirectly, to any individual or legal person, including any entity that is part of the economic group of a bank, any loan or credit facility, guarantee or any other obligation (other than credit facilities fully secured by deposits in the bank) ("Credit Facilities") in favor of said person exceeding at any time, individually or jointly, 25% of the total regulatory capital of the bank. The Banking Law also limits a bank and the ultimate parent of the banking group in granting loans or issuing guarantees or any other obligation to "related parties" that exceed (1) 5% of its total capital, in the case of unsecured transactions, and (2) 10% of its total capital, in the case of collateralized transactions (other than loans secured by deposits in the bank). For these purposes, a "related party" is (a) at least one or more of the bank's directors, (b) any stockholder of the bank who directly or indirectly owns 5% of the voting shares of the bank or the bank holding company, (c) any company of which one or more of the bank's directors is a director or officer or where one or more of the bank's directors is a guarantor of the loan or credit facility, (d) any company or entity in which the bank or any one of its directors or officers can exercise a controlling influence, (e) any company or entity in which the bank or any one of its directors or officers that either has a preponderant influence, significant interest or owns 20% or more of the voting shares of the bank or bank holding company and (f) managers, officers and employees of the bank, or their respective spouses (other than home mortgage loans or guaranteed personal loans under general programs approved by the bank for employees).

The Banking Law contains additional limitations and restrictions with respect to related party loans and credit facilities. For instance, under the Banking Law, banks may not grant credit facilities to any employee in an amount that exceeds the employee's annual compensation package, and all credit facilities to managers, officers, employees or stockholders who are owners of 5% or more of the issued and outstanding capital stock of the lending bank or the ultimate parent of the banking group, will be made on terms and conditions similar to those given by the bank to its clients in arm's-length transactions and which reflect market conditions for a similar type of operation. Shares of a bank cannot be pledged or offered as security for loans or credit facilities issued by the bank.

Other Requirements

In addition to the foregoing requirements, there are certain other requirements applicable to General License Banks, including that (1) a bank must notify the Superintendency of Banks before opening or closing a branch or office in Panama and obtain approval from the Superintendency of Banks before opening or closing a branch or subsidiary outside Panama, (2) a bank must obtain approval from the Superintendency of Banks before it liquidates its operations, merges or consolidates with another bank or sells all or substantially all of its assets, (3) a bank must notify the Superintendency of Banks, within the first three months of each fiscal term, the name of the certified public accounting firm that it wishes to contract to carry out the duty of external auditing for the new fiscal term, (4) a bank must obtain prior approval from the Superintendency of Banks of the credit rating entity it wishes to hire to perform the credit rating assessment, (5) a bank must publish in a local newspaper the credit rating issued by the rating agency and any credit rating update, and (6) a bank must provide written affirmation of its audited financial statements signed by the Chairman of the Board, the Chief Executive Officer and Chief Financial Officer of the Bank. The subsidiaries of Panamanian banks established in foreign jurisdictions must observe the legal and regulatory provisions applicable in Panama regarding the sufficiency of capital, as prescribed under the Banking Law.

Regulation of Banking Groups

The Banking Law regulates banks and now the entire "banking group" to which each bank belongs. Banking groups are defined as the holding company and all direct and indirect subsidiaries of the holding company, including the bank in question. Banking groups must comply with audit standards and various limitations set forth in the Banking Law, in addition to all compliance requirements applicable to the bank in question. The Banking Law provides that banks, and now banking groups, in Panama are subject to inspection by the Superintendency of Banks, which must take place at least once every two years. The Superintendency of Banks is empowered to request from any bank or any company that belongs to the economic group of which a bank in Panama is a member, the documents and reports pertaining to its operations and activities. Banks are required to file with the Superintendency of Banks weekly, monthly, quarterly and annual information, including financial statements, an analysis of their credit facilities and any other information requested by the Superintendency of Banks. In addition, banks are required to make available for inspection any reports or documents that are necessary for the Superintendency of Banks to ensure compliance with Panamanian banking laws and regulations. Banks subject to supervision may be fined by the Superintendency of Banks for violations of Panamanian banking laws and regulations. The Superintendency of Banks inspected us from August to December 3, 2010 and the results of this inspection were fully satisfactory. The Superintendency of Banks is currently inspecting us. We expect the result of such inspection to be satisfactory.

Loan Loss Reserves

Panamanian banking regulations contain specific guidelines on loan classification. There are five categories of loans: normal, special mention, subnormal, doubtful and unrecoverable. The banking regulations set out clear requirements intended to achieve consistent credit classifications, including assessing the loans based on which banking portfolio they fall into (i.e., consumer, corporate, etc.) and how to calculate specific and general loan loss provisions. Previous regulation established that banks at all times had to maintain a level of loan loss provisions (combining both general and specific provisions) equal to at least 1% of their net of cash collateral loan portfolio. On May 28, 2013, the Superintendency of Banks issued Accord No. 4 of 2013, which eliminated the 1% minimum global loan loss provision, amended the loan loss reserve provision amounts for specific provisions and established provision amounts for what are now known as dynamic provisions (previously classified as general provisions).

The implementation and effectiveness of the regulations on loan classification and loan loss provisions is verified by the Superintendency of Banks through off-site and on-site examinations, based on the credit risk information available in the credit risk registry and by assessments done on-site on the credit management process and through tests regarding the quality of the credit evaluation.

A recent amendment to Accord No. 4 of 2013 requires banks to suspend the recognition of interest on non-performing loans as follows: (i) when the bank determines the deterioration of the debtor's repayment capacity; (ii) when a debtor has not made payments on interest and capital in more than 90 days for loans that finance commercial

activities and/or production, including corporate loans and other loans, when a debtor has not made payments on interest and capital in more than 90 days for consumer loans and personal loans secured by mortgages or when a debtor has not made payments on interest and capital in more than 120 days for loans secured with residential mortgages; (iii) when a loan has been granted making an exception to credit policies and procedures and such exceptions have not been amended or satisfied and there have been no payments 60 days after disbursement; (iv) when the bank determines the probability of not recovering an overdraft in case of an expiration date, when the debtor has not paid 30 days after said expiration date and without an expiration date in reference to occasional overdrafts, when the debtor has not paid 30 days after the first date of use.

Integral Risk Management

Panamanian banking regulations contain guidelines for integral risk management of financial institutions. Integral risk management is a process intended to identify potential events that can affect banks and to manage those events according to their nature and risk level. This regulation covers all kinds of risks that could affect a banking operation, such as: operational, market, credit, strategic, liquidity, legal, country, contagion, counterparty, technological and reputational risks.

Investments in Financial Instruments

The Banking Law allows Panamanian banks to invest in financial instruments such as equity instruments traded on a stock exchange, debt instruments (to the extent that certain requirements are satisfied), sovereign debt instruments, and quotas in mutual and investment funds, thereby restricting the types of financial instruments a bank may invest in.

Reserve Requirements

The Banking Law requires all financial institutions to maintain a legal reserve for certain obligations. The Superintendency of Banks may require additional marginal reserves. The exact level and method of calculation of these reserve requirements is set by the Panamanian regulator.

Credit Risk

Accord No. 8 2010 defines credit risk as the probability of the bank incurring losses as a result of the inability of its debtors to comply with the terms of a credit agreement. We use the standardized or internal rating-based methodology (IRB) to calculate our regulatory capital requirements for credit risk and it utilizes the parameters set forth in Accord No. 5 2008 of the Superintendency of Banks for risk-weighting of assets.

Market Risk

Regulations for the supervision of market risk require banks to establish internal policies and procedures to monitor these risks. Accord No. 8 2010 defines market risk as the probability of loss derived from exposure to various classes of commodities, securities, foreign exchanges, derivative operations or commercial assets that banks may hold in their portfolio, which may or may not be accounted for in their balance sheets. Current Panamanian regulations do not impose on banks the obligation to comply with minimum capital requirements to counterbalance the potential losses arising from market risks.

Operational Risk

Accord No. 8 2010 defines operational risk as the possibility of suffering financial losses from deficiencies in internal procedures, information technology, infrastructure or personnel, or the occurrence of adverse external events. We have established responsibilities for developing policies and procedures to identify, measure, control and report such risks. Pursuant to Accord No. 7 of 2011, banks are required to mitigate operational risks involved in their operations and services in order to minimize possible financial losses due to inadequate or nonexistent policies or procedures. Current Panamanian regulations do not impose on banks the obligation to comply with minimum capital requirements to counterbalance the potential losses arising from operational risks.

Insurance of Deposits

The Panamanian government does not insure any deposits; however, new deposits taken during a period of a bank's reorganization and deposits of USD\$10,000 or less have priority of payment under the Banking Law in the case of a liquidation of a bank.

Bank Consumer Protection

Bank consumer protection is exclusively regulated by the Banking Law. The Superintendency of Banks is responsible for overseeing compliance with bank consumer protection regulations, and it is empowered to develop the necessary standards and determine their scope and interpretation. In addition, the Banking Law establishes that banks must have a department that tracks consumer complaints and their resolution. Bank consumer protection regulations principally relate to limits on penalties which the bank may impose, transparency of information on accounts, fees, commissions, and other charges to bank consumers, and notification of price increases.

We are a user of credit reporting data which is regulated by consumer protection laws in Panama. The consumer protection laws establish guidelines as to the use of credit information published by the local Panamanian credit bureau.

Bankruptcy, Insolvency and Intervention

Under the Banking Law, the Superintendency of Banks can assume the administrative and operating control of a bank, including possession of its assets and seizure of its management in order to defend the best interest of the bank's depositors and creditors, under any of the following grounds: (i) at the request of the bank; (ii) if the bank may not continue operations without endangering the interests of the depositors; (iii) as a consequence of the evaluation of an advisor's report; (iv) noncompliance with the measures ordered by the Superintendency of Banks; (v) if the bank carries out its operations in an illegal, negligent or fraudulent manner; (vi) if the bank has suspended payment of its obligations; and (vii) if the Superintendency of Banks confirms that capital adequacy, solvency or liquidity of the bank has deteriorated in such a way as to require the Superintendency's intervention. At the moment of seizing administrative and operating control of the bank, the Superintendent will designate an interim administrator to exclusively exercise the legal representation of the bank on behalf of the Superintendency. The term of the interim administration will not be longer than thirty days, except in extraordinary circumstances where such term is extended, in which case the extension shall not be longer than thirty days. The interim administrator may be an employee of the seized bank.

Upon expiration of the period of administrative control, the Superintendent will decide upon the reorganization of the bank, the compulsory liquidation of the bank or the return of administrative and operating control to the directors or legal representatives of the bank, as the case may be.

If the Superintendent decides on a reorganization, the reorganizer shall have ample powers, including those to (i) amortize all losses against primary and secondary capital, as well as to determine the value of the stock at that point in time, (ii) appoint new executive officers; (iii) authorize the issuance of new stock as well as its sale to third parties at a price determined by the reorganizer; (iv) negotiate and execute the merger or consolidation of the bank with one or more banks, obtaining of loans for the bank, the sale or partial liquidation of the bank's assets or the acceptance of liens over said assets; and (v) recommend to the Superintendency the compulsory liquidation of the bank.

If the Superintendency of Banks considers that the compulsory liquidation of the bank is necessary, it will order the administrative liquidation of the bank and will designate a liquidator. In the event of liquidation, the bank's obligations will be paid in the following order of precedence: (i) new deposits taken during the period of intervention and reorganization; (ii) deposits for U.S.\$10,000.00 or less; (iii) labor obligations; (iv) Social Security Contributions withheld from employees and owed to the Social Security fund; (v) taxes due to the National Treasury or the municipalities, as well as obligations due to public services supplied by the Republic of Panama; and (vi) other deposits and obligations.

While the Banking Law treats senior unsecured indebtedness issued at different times as pari passu in accordance with the terms of that indebtedness, the civil code treats previously issued senior unsecured indebtedness as senior to any new senior unsecured indebtedness. We currently have U.S.\$658.3 million of senior unsecured indebtedness outstanding. While we expect that a court would treat all of our senior unsecured indebtedness as pari passu in accordance with the Banking Law, as no banks have become insolvent since that law became enacted we cannot assure you that a court would not apply the civil code, which would make all senior unsecured debt issued prior to the Notes senior to the Notes. See *“Risk Factors—Risks Relating to the Notes—Enforcing your rights as a holder of Notes in Panama may prove difficult.”*

Panamanian Anti-Money Laundering Laws and Regulations

Under Panamanian law, all banks and trust corporations must take necessary measures to prevent their operations and/or transactions from being used for money laundering operations, terrorism financing or any other illicit activity.

Some of the measures that banks and trust corporations adopt in order to prevent their operations and/or transactions from being used for money laundering operations are the following: (i) compliance with “Know Your Customer” policies by creating a profile for each customer, as per the requirements set forth in the Banking Law. Banks are required to pay special attention to accounts over U.S.\$10,000.00; (ii) tracking the movement of every customer’s account, in order to know their regular activities to be able to identify unusual transactions; (iii) keeping a registry of every suspicious transaction and notify, if deemed convenient, the Financial Analysis Unit (a governmental agency under the Ministry of the Presidency); and (iv) conduct internal audits every six months on accounts with funds exceeding U.S.\$10,000.00, with the purpose of determining if transactions made in these accounts are consistent with the account holder’s usual behavior.

Fiduciary Activity

We hold a fiduciary license and our fiduciary activities are regulated by the Fiduciary Law of Panama and supervised by the Superintendency of Banks. This law establishes the norms of operating as a fiduciary (trustee) in the Republic of Panama including minimum guarantees that must be established and periodic reporting requirements.

Disclosure of Information to the Superintendency of Capital Markets

We have registered securities with the Superintendency of Capital Markets and listed said securities on the Panama Stock Exchange. As such, Panama’s securities laws impose disclosure requirements on us, including the filing of an annual report together with our audited financial statements and the report of independent auditors, quarterly reports together with unaudited financial statements, and reporting certain material nonpublic “relevant events” (*hechos relevantes*) that could have an impact on the market price of a security and/or the behavior of the investors and/or sellers of securities.

DESCRIPTION OF THE NOTES

The Notes will be issued pursuant to an indenture, dated as of October 31, 2014 (the “Indenture”). The Indenture is an agreement among Global Bank Corporation (the “Bank”), Deutsche Bank Trust Company Americas, as trustee, registrar, transfer agent and paying agent, and Deutsche Bank Luxembourg S.A., as Luxembourg listing agent, transfer agent and paying agent.

The Indenture provides for the issuance of the Notes but does not limit the aggregate principal amount of Notes that may be issued under the Indenture, and provides that, subject to certain conditions, additional Notes may be issued under the Indenture from time to time. The Indenture does not limit the amount of additional indebtedness or other obligations that the Bank may incur. At the option of the Bank, this additional indebtedness may consist of additional Notes (“Additional Notes”) issued by it in one or more transactions, which shall have identical terms (other than issue date, issue price and in certain cases, first interest payment date) as the Notes issued hereby; *provided, however*, that unless such Additional Notes are issued under a separate CUSIP, ISIN and Common Codes, either such Additional Notes are part of the “same issue” within the meaning of U.S. Treasury Regulation Section 1.1275-1(f) or Section 1.1275-2(k), the original Notes and such Additional Notes are otherwise fungible for United States federal income tax purposes. Holders of Additional Notes would have the right to vote together with holders of the Notes as one class.

This summary describes the general terms and provisions of the Indenture and the Notes. The description of certain provisions of the Notes does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Indenture and the Notes, including the definitions therein of certain terms. The Bank urges you to read each of the Indenture and the form of the Notes because they, and not this description, define your rights as a holder of Notes. In case of any conflict regarding the rights and obligations of the holders of the Notes under the Indenture, the Notes, and this offering memorandum, the terms of the Indenture will prevail. Capitalized terms not otherwise defined in this *“Description of the Notes”* have the meanings ascribed to them in the Indenture. You may obtain a copy of the Indenture and the form of the Notes by contacting the Trustee at the address indicated in this offering memorandum and, for so long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange (the “LSE”) and to trading on the Euro MTF Market, the alternative market of the LSE, at the office of the paying agent in Luxembourg.

Ranking and Outstanding Indebtedness

The Notes will be our direct, unconditional and unsecured senior obligations and will, other than as set forth below, at all times rank at least *pari passu* in right of payment with all of our other existing and future senior unsecured obligations from time to time outstanding other than obligations that are, by their terms, expressly subordinated in right of payment to the Notes. The Notes will be effectively subordinated to (i) all of our existing and future secured indebtedness with respect to the value of our assets securing that indebtedness, (ii) claims from the Panamanian government or any municipality for unpaid Taxes; (iii) claims from the Panamanian Social Security Administration (*Caja de Seguro Social*) for unpaid employer-employee social security contributions; (iv) claims from employees for unpaid wages and other employee’s severance and compensation payments; (v) certain direct, unconditional and unsecured general obligations that, in case of our insolvency, are granted preferential treatment pursuant to Panamanian law, (vi) claims of our existing and future depositors pursuant to applicable Panamanian law, and (vii) other claims that are granted preference as a matter of law. As of June 30, 2014, the Bank had:

- U.S.\$369.9 million of senior secured indebtedness which would rank senior to the Notes;
- U.S.\$2.9 billion of deposits which would rank senior to the Notes; and
- U.S.\$658.3 million of senior unsecured indebtedness.

Principal, Maturity and Interest

The Bank is issuing U.S.\$400,000,000 aggregate principal amount of Notes. The Notes will mature on October 30, 2019. The Notes will bear interest at a rate of 5.125% per year from October 31, 2014. Interest on the

Notes will be payable semi-annually in arrears on April 30 and October 30 of each year (each, an “Interest Payment Date”), commencing on April 30, 2015.

Redemption at Maturity

The outstanding principal amount of the Notes will be paid upon maturity unless required to be earlier repaid as a result of the occurrence and continuation of an Event of Default (as defined herein) or as described below.

Optional Redemption

Except as stated below, the Bank may not redeem the Notes prior to their maturity. The Bank will have the right at any time to redeem any of the Notes, in whole or in part, upon giving not less than 30 days’ but not more than 60 days’ notice, at a redemption price equal to the greater of (1) 100% of the principal amount of such Notes on such redemption date and (2) the sum of the present value on such redemption date of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points (the “Make-Whole Amount”), plus in each case any accrued and unpaid interest on the principal amount of the Notes up to, but not including, the date of redemption (subject to the right of holder of record on the relevant record date to receive interest due on the relevant interest payment date) and Additional Amounts, if any.

“Comparable Treasury Issue” means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Notes.

“Comparable Treasury Price” means, with respect to any redemption date (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Bank.

“Reference Treasury Dealer” means Citigroup Global Markets Inc. and Deutsche Bank Securities Inc. (or their respective affiliates that are primary United States securities dealers) and two other primary United States government securities dealers in New York City reasonably designated by the Bank; provided that, if any of the foregoing shall cease to be a primary United States government securities dealer in New York City (a “Primary Treasury Dealer”), the Bank will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 pm New York City time on the third Business Day preceding such redemption date.

“Treasury Rate” means, with respect to any redemption date, the rate per annum as determined by the Independent Investment Banker equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Redemption Prior to Maturity for Taxation Reasons

Early Redemption Upon a Withholding Tax Event

Upon the occurrence of a Withholding Tax Event in respect of the Notes, the Bank may, at its election, redeem the Notes in whole, but not in part, upon giving not less than 30 nor more than 60 days' notice to the holders of the Notes, in an amount equal to the Base Redemption Amount. The Bank will not give any such notice of redemption earlier than 90 days prior to the earliest date on which the Bank would be obligated to pay Additional Amounts (as defined below) if a payment in respect of the Notes was then due. Prior to the publication or, where relevant, mailing of any notice of redemption of the Notes pursuant to this offering memorandum, the Bank will deliver to the Trustee (a) a certificate signed by two (2) officers of the Bank stating that obligation to pay such Additional Amounts cannot be avoided by the Bank taking reasonable measures available to it; and (b) a written opinion of independent tax counsel to the Bank of recognized standing qualified under the laws of the relevant Taxing Jurisdiction (as defined below) to the effect that the Bank has or will become obligated to pay such Additional Amounts as a result of a Withholding Tax Event.

"Base Redemption Amount" means the aggregate principal amount of the Notes *plus* accrued and unpaid interest in respect of the current interest period to (but excluding) the redemption date *plus* Additional Amounts, if any.

"Withholding Tax Event" means that, as a result of:

- (i) any change in, amendment to or official pronouncement by a competent authority of Panama with respect to, the laws (or any regulations or rulings issued thereunder) of Panama, including any political subdivision thereof or any taxing authority therein, as applicable, which change, amendment or pronouncement is announced and becomes effective on or after the date of issuance of Notes; or
- (ii) any change in the application, administration or official interpretation of such laws, regulations or rulings, including, without limitation, the holding of a court of competent jurisdiction, which change in application, administration or interpretation is announced or becomes effective on or after the date of issuance of Notes,

the Bank will be, on or after the date of issuance of Notes, obligated to pay such Additional Amounts in respect of the Notes on the next payment date and which obligation the Bank determines in good faith cannot be avoided by it taking reasonable measures available to it.

Payment and Administration of the Notes

The Notes will bear interest at the rates specified above. See "—*Principal, Maturity and Interest*.". Interest on the Notes will be paid on the dates specified above to the person in whose name a Note is registered at the close of business on the day immediately preceding the respective Interest Payment Date (such date, a "record date," whether or not a Business Day).

If any Interest Payment Date or maturity date for the Notes falls on a day that is not a Business Day, the related payment of principal or interest will be made on the next succeeding Business Day as if it were made on the date such payment was due, and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date or maturity date, as the case may be.

Any interest on the Notes which is payable, but is not paid or duly provided for, on any Note Interest Payment Date shall cease to be payable to the holder of the Note on the regular record date, and such defaulted interest may be paid by the Bank to the persons in whose name the Notes are registered at the close of business on a special record date (as such term is defined in the Indenture) fixed by the Trustee for such purpose. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months. Payments of principal, premiums, if any, and interest in respect of each Global Note will be made by the paying agents by wire transfer to the U.S. dollar account specified by such person or, if no such account is specified, by U.S. dollar check drawn on a bank in New York City, New York maintained to the person entitled thereto at its registered address. We will make

payments of principal and premiums, if any, upon surrender of the relevant notes at the applicable trust office of the trustee or any of the paying agents.

The Notes will be issued in denominations of U.S.\$200,000 and any integral multiple of U.S.\$1,000 in excess thereof and only in the form of beneficial interests in respect of one or more Global Notes registered in the name of Cede & Co., as nominee of The Depository Trust Company, or DTC. Beneficial interests in respect of the Global Notes will be held through financial institutions acting on behalf of the beneficial holders of such interests as direct or indirect participants in DTC. Except in limited circumstances, owners of beneficial interests in respect of the Global Notes will not be entitled to receive physical delivery of Notes in certificated form. See “—*Book-Entry System; Delivery and Form.*” No service charge will be made for any registration of, transfer or exchange of Notes, but the Bank may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Initially, the Trustee will act as paying agent and security registrar for the Notes. The Notes may be presented for registration of transfer and exchange at the offices of the security registrar for the Notes.

Unclaimed Payments, Prescription

All money paid by us to the Trustee that remains unclaimed at the end of two years after the amount is due to a holder will be repaid to us. After that two-year period, the holder may look only to us for payment and not to the Trustee or anyone else. The right to receive each payment of principal of and interest on the notes will become void at the end of six years after the due date thereof.

Highly Leveraged Transactions; Change of Control

The Indenture does not include any debt covenants or other provisions which afford holders of the Notes protection in the event of a highly leveraged transaction or a change of control.

Indebtedness, Liens, Dividends, Investments, Transactions with Affiliates and Reserves

The Indenture does not limit the ability of the Bank to incur additional indebtedness (including Additional Notes), to grant liens on its assets and properties, to make payments of dividends, to make investments or enter into transactions with its affiliates or require it to create or maintain any reserves.

Covenants

The Bank has agreed to restrictions on its activities for the benefit of holders of the Notes. The following restrictions will apply separately to the Notes:

Consolidation, Merger, Sale or Conveyance

The Bank may not consolidate with or merge into any other corporation or convey or transfer our properties and assets substantially as an entirety to any person, unless:

(i) the successor corporation shall be a corporation organized and existing under the laws of Panama, the United States of America or any state thereof (to the extent applicable), and shall expressly assume, by a supplemental indenture, delivered to the Trustee, the due and punctual payment of the principal of or interest on the Notes and the performance of every covenant in the Indenture on the Bank’s part to be performed or observed;

(ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both would become an Event of Default, shall have happened and be continuing; and

(iii) it shall have delivered to the Trustee an officers’ certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance or transfer and such supplemental indenture comply with the foregoing

provisions relating to such transaction and all conditions precedent in the Indenture relating to such transaction have been complied with.

In case of any such consolidation, merger, conveyance or transfer, such successor corporation will succeed to and be substituted for the Bank as obligor on the Notes with the same effect as if it had issued the Notes. Upon the assumption of the obligations of the Bank by any such successor corporation in such circumstances subject to applicable laws, the Bank will be discharged from all obligations under the Notes and the Indenture.

Maintenance of Franchise and Legal Rights.

The Bank shall maintain, renew and keep in full force and effect our legal existence and rights, licenses, permissions, consents, approvals, franchises and privileges in the jurisdictions necessary for the performance of its obligations under the Indenture and in the normal conduct of its business (except, in each case, to the extent that any failure to have such rights, licenses, permissions, consents, approvals, franchises and privileges could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect).

Compliance with Laws.

The Bank shall comply at all times in all respects with all laws applicable to it, except where non-compliance therewith could not reasonably be expected, alone or in the aggregate, to have a Material Adverse Effect.

Periodic Reports

So long as any Notes are outstanding, the Bank will furnish to the Trustee:

(i) within 120 days after the end of each fiscal year, an English version (or accompanied by an English translation thereof) of its consolidated audited Financial Statements for the most recent fiscal year, prepared in accordance with IFRS as adopted by the International Account Standards Board and modified, from time to time by prudential regulations issued by the Superintendency of Banks, together with an audit report thereon by its independent auditors and with the corresponding notes to the financial statements in English, accompanied by an officer's certificate stating that no Event of Default has occurred during such period or, if one or more has/have occurred, specifying each such event and what actions have been taken and/or will be taken with respect to each such event; and

(ii) within 75 days after the end of each of the first three fiscal quarters of each fiscal year and 120 days after the end of each fiscal year, an English version (or accompanied by an English translation thereof) of its unaudited financial statements for the most recent fiscal quarter, prepared in accordance with IFRS as adopted by the International Account Standards Board and modified, from time to time by prudential regulations issued by the Superintendency of Banks, accompanied by an officer's certificate stating that no Event of Default has occurred during such period or, if one or more has/have occurred, specifying each such event and what actions have been taken and/or will be taken with respect to each such event.

In addition, the Bank shall furnish to the holders of the Notes and to prospective investors, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as such Notes are not freely transferable under the Exchange Act by "persons" who are not "affiliates" under the Securities Act.

In addition, if and so long as the Notes are admitted to listing on the Official List of the LSE and to trading on the Euro MTF Market and the rules of the LSE so require, copies of such reports and information furnished to the Trustee will also be made available at the specified office of the paying agent in Luxembourg.

Delivery of such reports, information and documents to the Trustee is for informational purposes only, and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or

determinable from information contained therein, including the Bank's compliance with any of their covenants hereunder (as to which the Trustee is entitled to conclusively rely exclusively on an Officers' Certificate).

The Trustee shall have no obligation to determine if and when the Issuer's statements or reports are publicly available and accessible electronically.

Listing

The Bank has made an application for admission of the Notes to the official list of the Luxembourg Stock Exchange and an application for admission to trading on the EURO MTF Market of the Luxembourg Stock Exchange.

Events of Default

An "Event of Default," with respect to the Notes is defined in the Indenture as:

- (i) default shall be made in the due and punctual payment of all or any part of the principal of, or premium (if any) on, any Note, including sums payable as Additional Amounts, when and as the same shall become due and payable, whether at stated maturity, by acceleration, by prepayment or otherwise;
- (ii) default shall be made in the due and punctual payment of any interest on any Note, when and as the same shall become due and payable, and such default shall have continued for a period of at least 30 days;
- (iii) The Bank shall fail to observe or perform any covenant contained in the Indenture or the Notes, and such failure shall continue for 30 days, except in cases where the Bank cannot remedy such failure to perform for reasons including, but not limited to, a discontinuation of its corporate existence, in which instance such failure to perform will immediately constitute an Event of Default;
- (iv) any event shall occur or conditions shall exist in respect of any Indebtedness of the Bank (other than the Notes) or any of its subsidiaries, or under any evidence of any such Indebtedness or under any mortgage, indenture or other agreement relating thereto, the effect of which is to cause, or permit any holder of such Indebtedness or a trustee to cause, the acceleration of the maturity of such Indebtedness or to require the repayment or repurchase of such Indebtedness, or any such Indebtedness shall not have been paid at the stated maturity thereof and any applicable grace period shall have expired, provided that any such event or conditions or nonpayment in respect of any such Indebtedness of the Bank or any of its subsidiaries shall be disregarded for purposes of this Subsection (iv) unless the principal amount of such Indebtedness affected by such event, conditions and/or nonpayment shall be at least U.S.\$10,000,000;
- (v) The Bank or any of its subsidiaries shall (1) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or administrator of itself or of all or a substantial part of its property, (2) admit in writing its inability to, or be generally unable to, pay its debts as such debts become due, (3) make a general assignment for the benefit of its creditors, (4) commence a voluntary case under the United States Bankruptcy Code (as now or hereafter in effect), (5) file a petition seeking to take advantage of any other law providing for the relief of debtors or relating to bankruptcy, insolvency, reorganization, liquidation, dissolution, arrangement or winding up, or composition or readjustment of debts, (6) fail to controvert in a timely or appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under such Bankruptcy Code, (7) take any action under the laws of its jurisdiction of incorporation (or any other jurisdiction) analogous to any of the foregoing, or (8) take any corporate action for the purpose of effecting any of the foregoing;

- (vi) a proceeding or case shall be commenced, without the application or consent of the Bank or any of its subsidiaries in any court of competent jurisdiction, seeking (1) the liquidation, reorganization, dissolution, arrangement, winding up, or composition or readjustment of its debts, (2) the appointment of a trustee, receiver, custodian, examiner, liquidator, administrator or the like of it or of all or any substantial part of its properties, or (3) similar relief in respect of it, under any law providing for the relief of debtors or relating to bankruptcy, insolvency, reorganization, liquidation, dissolution, arrangement or winding up, or composition or readjustment of debts, and such proceeding or case shall continue undismissed, or unstayed and in effect, for a period of 60 days; or an order for relief shall be entered in an involuntary case under the United States Bankruptcy Code against the Bank or any of its subsidiaries; or action under the laws of the jurisdiction of incorporation of the Bank or any of its subsidiaries (or any other jurisdiction) analogous to any of the foregoing shall be taken with respect to the Bank or any of its subsidiaries and shall continue unstayed and in effect for any period of 60 consecutive days;
- (vii) there shall occur with respect to the Bank or any of its subsidiaries, any event which is grounds for required submission of a capital restoration plan or for seeking the appointment of a receiver or conservator, or any conservator or receiver shall be appointed under any law applicable to the Bank or any of its subsidiaries;
- (viii) any Bank Regulatory Authority (as defined below) shall issue a cease and desist order to or in respect of the Bank or any of its subsidiaries;
- (ix) The Bank or any of its subsidiaries shall cease accepting deposits or making commercial loans on the Instruction of any Bank Regulatory Authority or any other national, Federal, state or other regulatory body with authority to give such instruction other than pursuant to any instruction generally applicable to banks organized under the jurisdiction or organization of such entity;
- (x) any event with respect to the Bank or any of its subsidiaries occurs which, under the laws of any jurisdiction or any political subdivision of any jurisdiction, has an effect similar to any of the events referred to in Subsections (v) through (ix), inclusive; or
- (xi) any final judgment or judgments of a court or courts of competent jurisdiction shall be rendered against the Bank or any of its subsidiaries for the payment of money in excess of U.S.\$10,000,000 in the aggregate (or the equivalent thereof, as of any date of determination, in any other currency) and any one or more of such judgments exceeding such amount in the aggregate shall not be paid (whether in full or in instalments in accordance with the terms of the judgment), discharged or execution thereof stayed pending appeal, within 60 days after entry thereof, or, in the event of such a stay, such judgment or judgments shall not be discharged within 60 days after such stay expires.

For purposes of the above, “Indebtedness” means (i) money borrowed and premiums (if any) and accrued interest in respect thereof, (ii) liabilities under or in respect of any acceptance or credit, (iii) the principal and premium (if any) and any accrued and unpaid interest in respect of any bonds, notes, debentures, debenture stock, loan stock, certificates of deposit or other securities whether issued for cash or in whole or in part for a consideration other than cash, (iv) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable in the ordinary course of business), and (v) guarantees and other contingent obligations in respect of Indebtedness referred to in clauses (i) through (iv) above.

For purposes of the above, “Bank Regulatory Authority” means the Superintendency of Banks or any other relevant bank regulatory authority of Panama.

The Indenture provides that (i) if an Event of Default (other than an Event of Default described in clauses (v), (vi), (vii), (viii), (ix) and (x) above) shall have occurred and be continuing with respect to the Notes, either the Trustee or the holders of not less than 25% of the total principal amount of the Notes then outstanding may declare the principal of all outstanding Notes and the interest accrued thereon, if any, to be due and payable immediately and (ii) if an Event of Default described in clauses (v), (vi), (vii), (viii), (ix) and (x) above shall have occurred, the

principal of all outstanding Notes and the interest accrued thereon, if any, shall become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holder of Notes. In this case, the Bank will be required, without limiting any of its payment obligations under the Notes, to duly comply with any and all then-applicable regulations for remittance of funds outside of Panama. The Indenture provides that Notes owned by the Bank or any of its affiliates shall be deemed not to be outstanding for, among other purposes, declaring the acceleration of the maturity of the Notes. Upon the satisfaction by the Bank of certain conditions, the declaration described in clause (i) of this paragraph may be annulled by the holders of a majority of the total principal amount of the Notes then outstanding. Past defaults, other than an Event of Default described in clauses (i), (ii) and (iii) above, may be waived by the holders of a majority of the total principal amount of the Notes outstanding, *provided, however*, that in the case of an Event of Default described in clauses (v), (vi), (vii), (viii), (ix) and (x) above, all the principal of the Notes, interest thereon and all other amounts payable under the Notes shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are expressly waived by the Bank. The Bank will be required, without limiting any of its payment obligations under the Indenture, to duly comply with any and all then applicable regulations for remittance of funds outside of Panama.

In the event of any Event of Default specified in clause (iv) above, such Event of Default and all consequences thereof shall be annulled, waived and rescinded, automatically and without any action by the Trustee or the holders of the Notes, if within 60 days after the Bank or its significant subsidiaries received notice of such acceleration or failed to make a principal payment, and before the entering of any judgment:

- (x) the Indebtedness that is the basis for such Event of Default has been discharged;
- (y) the holders thereof have rescinded, annulled or waived the acceleration, notice or action (as the case may be) giving rise to such Event of Default; or
- (z) the default that is the basis for such Event of Default has been cured.

Payment of Additional Amounts

All payments in respect of the Notes will be made free and clear of and without any deduction or withholding for or on account of any present or future Taxes (as defined below), unless the withholding or deduction of such Taxes is required by law or the official interpretation thereof, or by the administration thereof. If the Bank is required by any law of any Taxing Jurisdiction (as defined below) to withhold or deduct any Taxes from or in respect of any sum payable under the Notes, the Bank shall (i) pay such additional amounts with respect to Taxes ("Additional Amounts") as may be necessary in order that the net amounts receivable by holders of any Notes after such withholding or deduction shall equal the respective amounts which would have been receivable by such holder in the absence of such withholding or deduction, (ii) make such withholding or deduction, and (iii) pay the full amount withheld or deducted to the relevant tax or other authority in accordance with applicable law, except that no such Additional Amounts will be payable in respect of any Note:

- (i) to the extent that such Taxes are imposed or levied solely by reason of such holder (or the beneficial owner) having some connection with the Taxing Jurisdiction other than the mere holding (or beneficial ownership) of such Note, receiving principal or interest payments on the Notes or enforcing rights thereunder (including but not limited to citizenship, nationality, residence, domicile, or existence of a business, permanent establishment, a place of business or a place of management present or deemed present in the Taxing Jurisdiction);
- (ii) to the extent that any Taxes are imposed other than by deduction or withholding from payments of principal, premium, if any, or interest on or in respect of the Notes;
- (iii) in the event that the holder (or beneficial owner) fails to comply with any reasonable certification, identification or other reporting requirement concerning nationality, residence, identity or connection with the Taxing Jurisdiction if (1) compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or part of the taxes, (2) if the certification, identification or other reporting requirement does not concern nationality, residence or identity with the Taxing Jurisdiction, the holder (or beneficial

owner) is able to comply with these requirements without undue hardship and (3) the Bank has given the holders (or beneficial owners) at least 30 calendar days prior notice that they will be required to comply with such requirement;

(iv) in the event that the holder fails to surrender (where surrender is required) its Note for payment within 30 days after the Bank has made available a payment of principal or interest, provided that the Bank will pay Additional Amounts to which a holder would have been entitled had the Note been surrendered on the last day of such 30-day period;

(v) to the extent that such Taxes are imposed by reason of an estate, inheritance, gift, personal property, use or sales tax or any similar taxes (not including any value added tax), assessments or other governmental charges;

(vi) where such withholding or deduction of Taxes is imposed on a payment to an individual and is

(vii) required to be made pursuant to any European Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusions of the European Council of Economic and Finance Ministers (“ECOFIN”) meeting of June 3, 2003 or any law implementing or complying with, or introduced in order to conform to, such Directive;

(viii) where such Taxes could have been avoided by presenting the relevant Note to another available paying agent of the Bank;

(ix) to the extent any Tax required to be withheld or deducted under section 1471 through 1474 of the Internal Revenue Code of 1986, as amended (the “Code”), any current or future regulations or official interpretations thereof, any agreements pursuant to Section 1471(b)(1) of the Code, any intergovernmental agreement entered into in connection with the implementation of the foregoing and any treaty, law, regulation or other official guidance enacted by any foreign government implementing FATCA or any such intergovernmental agreement; and

(x) any combination of items (i) to (viii) above.

Any reference to payments on the Notes shall be deemed also to include any Additional Amounts. The foregoing obligations shall survive any termination of the Indenture or the Notes.

“Taxes” means, with respect to payments on the Notes, all current and future taxes, withholdings, imposts, funds, deductions, duties, levies, assessments, value added taxes and charges whatsoever, and all interest, penalties or similar amounts with respect thereto or with respect to the non-payment thereof, now or hereafter imposed, assessed, levied or collected by (or on behalf of) any taxing authority in Panama, or in the event that the Bank appoints additional paying agents, by the jurisdictions of such additional paying agents, or the jurisdiction of any successor corporation (each, a “Taxing Jurisdiction”), or any political subdivision thereof or any authority or agency therein or thereof having power to tax.

For a discussion of Panamanian withholding taxes applicable to payments under or with respect to the Notes, see “*Taxation*.”

Modification of the Indenture

Subject to applicable Panamanian banking regulations, the Bank and the Trustee may, without the consent of the holders of the Notes, amend, waive or supplement the Indenture or the Notes for certain specified purposes, including, among other things, curing ambiguities, defects, omissions or inconsistencies, to conform the text of the Indenture or the Notes to any provision in this “*Description of the Notes*” or making any other provisions with respect to matters or questions arising under the Indenture or the Notes or making any other change as will not adversely affect the interests of any holder of the Notes in any material respect.

In addition, with certain exceptions, the Bank and the Trustee may amend, waive or supplement the Indenture or the Notes with the consent of the holders of at least a majority in aggregate principal amount of the Notes then outstanding, but no such modification may be made without the consent of the holder of each outstanding Note affected thereby which would:

- (i) change the maturity of any payment of principal of or any installment of interest on any Note, or reduce the principal amount thereof or the interest or premium payable thereon, or change the method of computing the amount of principal thereof or interest or premium, if any, payable thereon on any date or change any place of payment where, or the coin or currency in which, any principal or interest or premium thereon are payable, or impair the right of holders to institute suit for the enforcement of any such payment on or after the date when due; or
- (ii) reduce the percentage in aggregate principal amount of the outstanding Notes, the consent of whose holders is required for any such amendment, supplement or waiver or the consent of whose holders is required for any waiver of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences provided for in the Indenture; or
- (iii) modify any of the provisions of certain sections of the Indenture with respect to the Notes, including the provisions summarized in this paragraph, except to increase any such percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Note affected thereby.

The Indenture provides that the Notes owned by the Bank or any of its affiliates shall be deemed not to be outstanding for, among other purposes, consenting to any such modification.

Without the consent of any holder of the Notes, the Bank and the Trustee may amend the Indenture to evidence the assumption by a successor corporation of our covenants contained in the Indenture and the Notes, to add to our covenants, or to surrender any right or power conferred by the Indenture upon the Bank, for the benefit of the holders of the Notes, to add such provisions as may be expressly permitted by the Trust Indenture Act of 1939, as amended, excluding the provisions in Section 316(a)(2), to establish any form of security as provided for in the Indenture and the issuance of and terms thereof, to add to the rights of the holders of the Notes, to evidence and provide for the acceptance of a successor trustee and to provide for the issuance of Notes in fully registered form.

Registrar, Transfer Agent and Paying Agents

Deutsche Bank Trust Company Americas will act as our agent as security registrar for the Notes. Deutsche Bank Trust Company Americas will also act as paying agent for the Notes. The Bank has the right at any time to vary or terminate the appointment of any paying agents and to appoint additional or successor paying agents in respect of the Notes. Registration of transfers of the Notes will be effected without charge, but upon payment (with the giving of such indemnity as the Bank may require) in respect of any tax or other governmental charges that may be imposed in relation to it. The Bank will not be required to register or cause to be registered the transfer of the Notes after the Notes have been called for redemption. Application has been made to admit the Notes for listing on the Official List of the LSE and to trading on the Euro MTF Market. As long as the Notes are listed on this market, the Bank will also maintain a paying agent and a transfer agent in Luxembourg.

The Trustee

Deutsche Bank Trust Company Americas is the trustee under the Indenture. The Indenture provides that during the existence of an Event of Default, the Trustee will exercise the rights and powers vested in it by the Indenture, using the same degree of care and skill as a prudent person would exercise or use under the circumstances in the conduct of his own affairs. In the absence of an Event of Default, the Trustee need only perform the duties specifically set forth in the Indenture. The Indenture does not contain limitations on the rights of the Trustee under the Indenture, should it become our creditor, to obtain payment of claims. The Trustee is not precluded from engaging in other transactions and, if it acquires any conflicting interest, it is not required to eliminate such conflict or resign. The address of the Trustee is 60 Wall Street, New York, New York 10005.

Governing Law; Submission to Jurisdiction

The Indenture and the Notes will be governed by, and will be construed in accordance with, the law of the State of New York, without giving effect to the applicable principles of conflict of laws.

The Bank will consent to the non-exclusive jurisdiction of the U.S. federal and New York state courts in the Borough of Manhattan, The City of New York, and will agree that all disputes under the Indenture or the Notes may be submitted to the jurisdiction of such courts. The Bank will irrevocably consent to and waive to the fullest extent permitted by law any objection that it may have to the laying of venue of any suit, forum, action or proceeding against it or its properties, assets and revenues with respect to the Indenture or any such suit, action or proceeding in any such court and any right to which it may be entitled on account of place of residence or domicile.

To the extent that the Bank or any of its revenues, assets or properties shall be entitled to any immunity from suit, from the jurisdiction of any such court, from attachment prior to judgment, from attachment in aid of execution of judgment, from execution of a judgment or from any other legal or judicial process remedy, it will irrevocably agree not to claim and will irrevocably waive such immunity to the fullest extent permitted by the laws of such jurisdiction.

The Bank will agree that service of all writs, claims, process and summonses in any suit, action or proceeding against it or its properties, assets or revenues with respect to the Indenture and the Notes or any suit, action or proceeding to enforce or execute any judgment brought against it in the State of New York may be made upon CT Corporation System at 111 Eighth Avenue, New York, New York 10011, and it will irrevocably appoint CT Corporation System as its agent to accept such service of any and all such writs, claims, process and summonses.

Book-entry System; Delivery and Form

The Notes are being offered and sold in connection with the initial offering thereof solely to “qualified institutional buyers,” as that term is defined in Rule 144A under the Securities Act, pursuant to Rule 144A, and in offshore transactions to persons other than “U.S. persons,” as defined in Regulation S under the Securities Act, in reliance on Regulation S. Following the initial offering of the Notes, the Notes may be resold to qualified institutional buyers pursuant to Rule 144A, non-U.S. persons in offshore transactions in reliance on Regulation S, and pursuant to Rule 144 under the Securities Act, as described under “*Transfer Restrictions*.”

The Global Notes

Rule 144A Global Note

Notes offered and sold to qualified institutional buyers pursuant to Rule 144A will be issued in the form of one or more fully registered restricted global note (the “Rule 144A Global Note”). The Rule 144A Global Note will be deposited on the date of the closing of the sale of the Notes with, or on behalf of, The Depository Trust Company, or DTC and registered in the name of Cede & Co., as nominee of DTC, and will remain in the custody of Deutsche Bank Trust Company Americas, as custodian pursuant to the FAST Balance Certificate Agreement between DTC and Deutsche Bank Trust Company Americas, as custodian. Interests in the Rule 144A Global Note will be available for purchase only by qualified institutional buyers.

Regulation S Global Note

Notes offered and sold in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act will initially be issued in the form of one or more fully registered Regulation S global note (the “Regulation S Global Note”). The Regulation S Global Note will be deposited upon issuance with, or on behalf of, a custodian for DTC in the manner described in the preceding paragraph for credit to the respective accounts of the purchasers, or to such other accounts as they may direct, at Euroclear Bank SA/NV, as operator of the Euroclear System (“Euroclear”) or Clearstream Banking, *societe anonyme* (“Clearstream”) as participants through depositaries in DTC.

Investors may hold their interests in the Regulation S Global Note directly through Euroclear or Clearstream or DTC, if they are participants in such systems, or indirectly through organizations which are participants in such systems. After the expiration of the Distribution Compliance Period (defined below under “—*Exchanges Among the Global Notes*”), investors may also hold such interests through organizations other than Euroclear or Clearstream that are participants in the DTC system. Euroclear and Clearstream will hold such interests in the Regulation S Global Note on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositaries. Such depositaries, in turn, will hold such interests in the Regulation S Global Note in customers’ securities accounts in the depositaries’ names on the books of DTC.

Except as set forth below, the Global Notes may be transferred, in whole and not in part, solely to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in respect of the Global Notes may not be exchanged for Notes in physical, certificated form (referred to as “certificated notes”) except in the limited circumstances described below.

The Notes will be subject to certain restrictions on transfer and will bear a restrictive legend as set forth under “*Transfer Restrictions*.”

All interests in the Global Notes, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

Exchanges Among the Global Notes

Prior to the 40th day after the later of the commencement of the offering of the Notes and the date of the closing of the sale of the Notes (through and including the 40th day, the “Distribution Compliance Period”), transfers by an owner of a beneficial interest in respect of the Regulation S Global Note to a transferee who takes delivery of this interest through the Rule 144A Global Note will be made only in accordance with applicable procedures and upon receipt by the Trustee of a written certification from the transferor of the beneficial interest in the form provided in the Indenture to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A. Such written certification will no longer be required after the expiration of the Distribution Compliance Period.

Transfers by an owner of a beneficial interest in respect of the Rule 144A Global Note to a transferee who takes delivery of such interest through the Regulation S Global Note, whether before or after the expiration of the Distribution Compliance Period, will be made only upon receipt by the Trustee of a certification from the transferor in the form provided in the Indenture to the effect that such transfer is being made in accordance with Regulation S or (if available) Rule 144 under the Securities Act and that, if such transfer is being made prior to the expiration of the Distribution Compliance Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Any beneficial interest in respect of one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in another Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

Certain Book-Entry Procedures for the Global Notes

The descriptions of the operations and procedures of DTC, Euroclear and Clearstream set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. Neither the Bank, the Trustee nor the initial purchasers take any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

DTC has advised the Bank that it is (i) a limited purpose trust company organized under the laws of the State of New York, (ii) a “banking organization” within the meaning of the New York Banking Law, (iii) a member of the Federal Reserve System, (iv) a “clearing corporation” within the meaning of the Uniform Commercial Code, as amended, and (v) a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants, thereby eliminating the need for physical transfer and delivery of certificates. DTC’s participants include securities brokers and dealers (including the initial purchasers), banks and trust companies, clearing corporations and certain other organizations. Indirect access to DTC’s system is also available to other entities such as banks, brokers, dealers and trust companies, or indirect participants that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Investors who are not participants may beneficially own securities held by or on behalf of DTC only through participants or indirect participants.

The Bank expects that pursuant to procedures established by DTC (i) upon deposit of each Global Note, DTC will credit the accounts of participants designated by the initial purchasers with an interest in the Global Note and (ii) ownership of the Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the interests of participants) and the records of participants and the indirect participants (with respect to the interests of persons other than participants).

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Accordingly, the ability to transfer interests in the Notes represented by a Global Note to such persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in Notes represented by a Global Note to pledge or transfer such interest to persons or entities that do not participate in DTC’s system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the Global Note for all purposes under the Indenture. Except as provided below, owners of beneficial interests in respect of a Global Note will not be entitled to have Notes represented by such Global Note registered in their names, will not receive or be entitled to receive physical delivery of certificated Notes, and will not be considered the owners or holders thereof under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee thereunder. Accordingly, each holder owning a beneficial interest in respect of a Global Note must rely on the procedures of DTC and, if such holder is not a participant or an indirect participant, on the procedures of the participant through which such holder owns its interest, to exercise any rights of a holder of Notes under the Indenture or such Global Note. The Bank understands that under existing industry practice, in the event that it requests any action of holders of Notes, or a holder that is an owner of a beneficial interest in respect of a Global Note desires to take any action that DTC, as the holder of such Global Note, is entitled to take, DTC would authorize the participants to take such action and the participants would authorize holders owning through such participants to take such action or would otherwise act upon the instruction of such holders. Neither the Bank nor the Trustee or any paying agent, security registrar or transfer agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of Notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to such Notes.

Payments with respect to the principal of, premium, if any, liquidated damages, if any, and interest on any Notes represented by a Global Note registered in the name of DTC or its nominee on the applicable record date will be payable by the Trustee to or at the direction of DTC or its nominee in its capacity as the registered holder of the Global Note representing such Notes under the Indenture. Under the terms of the Indenture, The Bank and the Trustee, the paying agents, the security registrar and the transfer agents may treat the persons in whose names the Notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving payment thereon and for any and all other purposes whatsoever. Accordingly, neither the Bank nor the Trustee, any paying agent, security registrar or transfer agent has or will have any responsibility or liability for the payment of such amounts to owners of beneficial interests in respect of a Global Note (including principal, premium, if any, liquidated damages, if any, and interest). Payments by the participants and the indirect participants to the owners of beneficial interests in

respect of a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of the participants or the indirect participants and DTC.

Transfers between participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary. However, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a Business Day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream as a result of sales of interest in a Global Note by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the Business Day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Bank nor the Trustee or any paying agent, security registrar or transfer agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If (i) the Bank notifies the Trustee in writing that DTC is no longer willing or able to act as a depositary or DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depositary is not appointed within 90 days of such notice or cessation, (ii) the Bank, at its option, notifies the Trustee in writing that it elects to cause the issuance of Notes in definitive form under the Indenture, (iii) upon the request of any holder subsequent to the occurrence of any Event of Default or (iv) upon the occurrence of certain other events as provided in the Indenture, then, upon surrender by DTC of the Global Notes, certificated notes will be issued to each person that DTC identifies as the beneficial owner of the Notes represented by the Global Notes. Upon any such issuance, the Trustee is required to register such certificated notes in the name of such person or persons (or the nominee of any thereof) and cause the same to be delivered thereto.

Neither the Bank nor the Trustee, any paying agent, security registrar or transfer agent shall be liable for any delay by DTC or any participant or indirect participant in identifying the beneficial owners of the related Notes and each such person may conclusively rely on, and shall be protected in relying on, instructions from DTC for all purposes (including with respect to the registration and delivery, and the respective principal amounts, of the Notes to be issued).

Notices

Notice to holders of the Notes will be given by mail to the addresses of such holders as they appear in the security register.

From and after the date the Notes are listed on the Euro MTF Market and so long as a listing on the Euro MTF Market is maintained or is required by the rules of the LSE, all notices to holders of Notes will be published in English:

(1) in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*); or

(2) if such Luxembourg publication is not practicable, in one other leading English language newspaper being published on each day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions.

Notices shall be deemed to have been given on the date of publication as aforesaid or, if published on different dates, on the date of the first such publication. In addition, notices will be mailed to holders of Notes at their registered addresses in Luxembourg.

Replacement of Notes

In case of mutilated, destroyed, lost or stolen Notes, application for replacement thereof may be made to the Trustee or the Bank. Any such Note shall be replaced by the Trustee in compliance with such procedures, on such terms as to evidence and indemnification as the Trustee and the Bank may require and subject to any applicable law or regulation. All such costs as may be incurred in connection with the replacement of any Notes shall be borne by the applicant. Mutilated Notes must be surrendered before new ones will be issued.

BOOK-ENTRY, DELIVERY, AND FORM OF THE NOTES

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes sold in reliance on Rule 144A under the Securities Act initially will be represented by permanent Notes in global, fully registered form without interest coupons (each, a “Restricted Global Note”). The Notes sold in offshore transactions in reliance upon Regulation S under the Securities Act will initially be represented by permanent Notes in global, fully registered form without interest coupons (each, a “Regulation S Global Note,” together with the Restricted Global Notes, the “Global Notes”). The Global Notes will be deposited with the trustee as a custodian for DTC, as depositary, and registered in the name of a nominee of such depositary.

The Global Notes (and any Notes issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein and in the indenture and will bear the applicable legend regarding such restrictions set forth under the heading “*Transfer Restrictions—Legends*” herein. QIBs or non-U.S. purchasers may elect to take a Certificated Security (as defined below under “Certificated Securities”) instead of holding their interests through the Global Notes (collectively referred to herein as the “Non-Global Purchasers”), which Certificated Securities will be ineligible to trade through DTC, only in the limited circumstances described below. For a description of the restrictions on transfer of Certificated Securities and any interest in the Global Notes, see “*Transfer Restrictions*” and “*Plan of Distribution—Notes Are Not Being Registered*.”

The Global Notes

We expect that, pursuant to procedures established by DTC, (i) upon the issuance of the Global Notes, DTC or its custodian will credit, on its internal system, the principal amount at maturity of the individual beneficial interests represented by such Global Notes to the respective accounts of persons who have accounts with such depositary (“participants”) and (ii) ownership of beneficial interests in the Global Notes will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Such accounts initially will be designated by or on behalf of the initial purchasers, and ownership of beneficial interests in the Global Notes will be limited to participants or persons who hold interests through participants. Holders may hold their interests in the Global Notes directly through DTC if they are participants in such system, or indirectly through organizations that are participants in such system.

So long as DTC or its nominee is the registered owner or holder of the Notes, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Notes for all purposes under the indenture governing the Notes. No beneficial owner of an interest in the Global Notes will be able to transfer that interest except in accordance with DTC’s procedures, in addition to those provided for under the indenture with respect to the Notes.

Payments of the principal of, and premium (if any) and interest on, the Global Notes will be made to DTC or its nominee, as the case may be, as the registered owner thereof. None of us, the trustee, any paying agent, any transfer agent or the registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

We expect that DTC or its nominee, upon receipt of any payment of principal of, and premium (if any) and interest on, the Global Notes, will credit participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Notes as shown on the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in the Global Notes held through such participants will be governed by standing instructions and customary practice, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

DTC has advised us that it will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if

there is an event of default under the indenture, DTC will exchange the Global Notes for Certificated Securities, which it will distribute to its participants and which will be legended as set forth under the heading “*Transfer Restrictions*” and “*Plan of Distribution—Notes Are Not Being Registered*.” DTC has advised us as follows: DTC is a limited-purpose trust company organized under New York banking law, a “banking organization” within the meaning of the New York banking law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for issues of U.S. and non-U.S. equity, corporate and municipal debt issues that participants deposit with DTC. DTC also facilitates the post-trade settlement among participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between participants’ accounts. This eliminates the need for physical movement of securities certificates. Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to the DTC system is also available to indirect participants such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of DTC, it is under no obligation to perform such procedures, and such procedures may be discontinued at any time. None of us, the trustee, any paying agent, any transfer agent or the registrar will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Securities

A Global Note is exchangeable for certificated Notes in fully registered form without interest coupons (“Certificated Securities”) only in the following limited circumstances: DTC notifies us that it is unwilling or unable to continue as depositary for the Global Note and we fail to appoint a successor depositary within 90 days of such notice, or there shall have occurred and be continuing an event of default with respect to the Notes under the indenture and DTC shall have requested the issuance of Certificated Securities.

Certificated Securities may not be exchanged for beneficial interests in any Global Note unless the transferor first delivers to the trustee a written certificate (in the form provided in the indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See “*Transfer Restrictions*” and “*Plan of Distribution—Notes Are Not Being Registered*.”

The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer the Notes will be limited to such extent.

Exchanges Between Regulation S Notes and Restricted Global Notes

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the 40-day period commencing on the original issue date of the Notes, and to which Global Note the transfer is being made, the seller may be required to provide certain written certifications in the form provided in the indenture. A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Transfers involving exchanges of beneficial interests between the Regulation S Global Notes and the Restricted Global Notes will be effected by DTC by means of an instruction originated through the DTC deposit/withdrawal at custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Restricted Global Note or vice versa, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest.

TAXATION

The following discussion summarizes certain Panamanian and U.S. federal income tax considerations that may be relevant to you if you purchase, own or sell the Notes. This summary is based on laws, regulations, rulings and decisions now in effect in each of these jurisdictions, including any relevant tax treaties. Any change could apply retroactively and could affect the continued validity of this summary.

This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules.

You should consult your tax advisor about the tax consequences of acquiring, holding and disposing of the Notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local or other tax laws.

Panamanian Tax Considerations

For purposes of this summary, the term "Local Holder" means a beneficial owner of a Note that is (i) a legal entity domiciled or registered in Panama; (ii) a legal entity that has created a permanent establishment in Panama or otherwise has a tax domicile in Panama; (iii) an individual who is a Panamanian national; or (iv) an individual who is a tax resident of Panama. The term "Foreign Holder" means a beneficial owner of a Note who is not a Local Holder. The term "Foreign Financial Institution" means a Foreign Holder that is an international bank or financial institution.

Taxation of Interest

Payment of interest on the Notes to Foreign Financial Institutions is exempt from income tax in Panama, even if the net proceeds received by us upon the original issuance and sale of the Notes are placed, invested or economically utilized in Panama and our income is realized exclusively from activities in Panama. This exemption also will apply if the interest is paid or credited by us to a Foreign Financial Institution in its capacity as agent or fiduciary in an international issuance of securities. Under current Panamanian law, Cede & Co., as nominee of DTC, is a Foreign Financial Institution.

Interest on the Notes paid or credited to Foreign Holders will be subject to withholding in Panama at the applicable corporate income tax rate (currently 25%) over 50% of the interest paid or credited. Interest on the Notes paid or credited to Local Holders will have to be included as gross income in the Local Holder's annual income tax return and will be taxed at ordinary income tax rates. Ordinary income tax rates are 25% for corporations and other legal entities, and range from 15% to 25% for individuals.

In the event individual holders that are not Local Holders or Foreign Financial Institutions receive definitive Notes, then interest on the Notes paid or credited to such holders will be subject to withholding at the applicable rate.

Taxation of Dispositions

Capital gains realized by a holder of Notes that is a Foreign Holder, on the sale or other disposition of the Notes that is executed and effected outside of Panama, and for which payment thereof is made outside of Panama (a "Foreign Trade"), will not be subject to income or capital gains tax in Panama. If the sale or other disposition of the Notes does not qualify as a Foreign Trade, then capital gains realized on the sale or other disposition of the Notes will be subject to a 10% capital gains tax, payable by a 5% withholding on the purchase price which can be considered the final capital gains tax due. Losses recognized on the sale or other disposition of the Notes will be disallowed as a deduction for income tax purposes in Panama.

Stamp and Other Taxes

There are no other stamp, transfer or inheritance taxes applicable to the sale or other disposition of the Notes which are payable in Panama. Notwithstanding the foregoing, the Transaction Documents will become subject to stamp taxes in Panama if and when submitted as evidence before any court or other governmental authority in Panama at a rate of U.S.\$0.10 for each U.S.\$100.00 of the face value of the obligations stated therein.

Tax Treaty

There is currently no tax treaty for the avoidance of double taxation between the United States and Panama. There is, however, a tax information exchange agreement in force between the United States and Panama.

The above summary is based upon statutes, regulations, rulings and opinions as in effect on the date hereof.

U.S. Federal Income Tax Considerations

The following is a description of certain U.S. federal income tax consequences that may be relevant to the acquisition, ownership and disposition of the Notes by U.S. Holders, as defined below. This description addresses only the U.S. federal income tax considerations applicable to U.S. Holders that purchase Notes pursuant to this offering for the “issue price,” which will equal the first price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money, and that will hold the Notes as capital assets (generally, assets held for investment). This description does not address tax considerations applicable to holders that may be subject to special tax rules, including:

- certain financial institutions;
- insurance companies;
- real estate investment trusts or regulated investment companies;
- dealers or traders in securities or currencies;
- tax-exempt entities;
- persons that will hold the Notes as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for U.S. federal income tax purposes;
- persons subject to the U.S. federal alternative minimum tax;
- persons that have a “functional currency” other than the U.S. dollar; or
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes.

This description is based on the Code, existing, proposed and temporary U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as available on the date hereof. U.S. tax laws and the interpretation thereof are subject to change, which change could apply retroactively and could affect the tax consequences described below.

For purposes of this description, a “U.S. Holder” is a beneficial owner of the Notes for U.S. federal income tax purposes that is:

- a citizen or individual resident of the United States;

- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if either (x) it is subject to the primary supervision of a court within the United States and one or more U.S. persons has the authority to control all substantial decisions of the trust or (y) it has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

The U.S. federal income tax treatment of a partner in a partnership (including any entity classified as a partnership for U.S. federal income tax purposes) that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships and partners in such partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of the Notes by the partnership.

This discussion does not address any U.S. federal tax consequences other than U.S. federal income tax consequences (such as the estate and gift tax). This discussion additionally does not address U.S. state, local and non-U.S. tax consequences. You should consult your tax adviser with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of the Notes, in your particular circumstances.

Payments of Interest

Interest paid on a Note (including any Additional Amounts) will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of accounting for federal income tax purposes.

The amount of interest taxable as ordinary income will include amounts withheld in respect of Panamanian taxes. Interest income earned by a U.S. Holder with respect to a Note will constitute foreign source income for United States federal income tax purposes, which may be relevant to a U.S. Holder in calculating the U.S. Holder's foreign tax credit limitation. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. In addition, certain Panamanian taxes withheld from interest income on a Note, if any, may be eligible for credit against the U.S. Holder's United States federal income tax liability, subject to generally applicable limitations and conditions, or, at the election of the U.S. Holder, for deduction in computing the U.S. Holder's taxable income. Generally, only income taxes (or taxes in lieu of income taxes) qualify for the foreign tax credit. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their own tax advisers regarding the availability of foreign tax credits in their particular circumstances.

Sale, Exchange, Retirement or Other Taxable Disposition

Upon the sale, exchange, retirement or other taxable disposition of a Note, a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other taxable disposition and the U.S. Holder's adjusted tax basis in the Note. Gain or loss, if any, will generally be U.S. source income for purposes of computing a U.S. Holder's foreign tax credit limitation. If the disposition of a Note by a U.S. Holder is subject to Panamanian tax, such tax may be eligible for credit against the U.S. Holder's United States federal income tax liability, subject to generally applicable limitations and conditions, or, at the election of the U.S. Holder, for deduction in computing the U.S. Holder's taxable income. For these purposes, the amount realized does not include any amount attributable to accrued interest, which will be taxed as interest to the extent not previously included in income. The U.S. Holder's adjusted tax basis in a Note will equal the U.S. Holder's cost for acquiring the Note (minus any amount attributable to accrued interest). The U.S. Holder's gain or loss will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, retirement or other taxable disposition the Note has been held for more than one year.

Medicare Tax

Certain U.S. Holders who are individuals, estates or non-exempt trusts must pay an additional 3.8% tax on, among other things, interest on and capital gains from the sale, retirement or other taxable disposition of Notes. U.S. Holders should consult their tax advisers regarding the effect, if any, of this tax on their investment in the Notes.

Backup Withholding and Information Reporting

Information returns may be filed with the Internal Revenue Service ("IRS") in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. Holder may be subject to U.S. backup withholding on these payments if the U.S. Holder fails to provide its taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS. U.S. Holders should consult their tax advisers concerning the application of information reporting and backup withholding rules.

FATCA

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") and the Treasury Regulations promulgated thereunder (commonly referred to as "FATCA") generally impose a withholding tax of 30% on certain payments to certain non-U.S. financial institutions (including entities such as us) unless such institutions ("foreign financial institutions" or "FFIs" as defined under the Code) enter into an agreement with the IRS (an "FFI Agreement"). Such an agreement will require the provision of certain information regarding the FFI's "U.S. account holders" (which could include holders of the Notes) to the IRS.

FFI Agreements also require FFIs to withhold up to 30% of amounts payable to account holders that do not provide them with information required to comply with FATCA ("Recalcitrant Holders") or to FFIs that do not enter into an FFI Agreement with the IRS under FATCA and are not otherwise exempt from or in deemed compliance with FATCA ("Non-Participating FFIs"), if such amounts constitute foreign passthru payments ("Foreign Passthru Payments") under FATCA, which term is not yet defined. Such withholding is generally not required on payments made before the later of January 1, 2017 or the date of publication of final regulations defining Foreign Passthru Payments. Further, such withholding on payments with respect to the Notes is required only if the Notes are significantly modified after the date (the "Grandfathering Date") that is six months after the date of filing of final regulations defining Foreign Passthru Payments.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an "IGA"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary," "withholding foreign partnership" or "withholding foreign trust" regimes). Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. On May 1, 2014, the United States and Panama agreed in substance to enter into an IGA (the "Panama IGA") based largely on the Model 1 IGA. Under guidance published by the IRS, Panama will be treated as having an IGA in effect until December 31, 2014 at which time an IGA must be signed in order for Panama to continue to be treated as an IGA jurisdiction.

Our management expects us to be treated as a Reporting FI under the Panama IGA and does not anticipate being obliged to withhold any amounts under FATCA from payments it makes. There can be no assurance, however, that we will be treated as a Reporting FI or that no withholding under FATCA or pursuant to the Panama IGA would be imposed on payments under the Notes. Regardless of whether we become a Reporting FI under the Panama IGA or enter into an FFI Agreement, holders of the Notes may be required to provide certain information, including, but not limited to: (a) information to allow determination of whether the beneficial owner of a Note is a United States person as defined in Section 7701(a)(30) of the Code or a United States owned foreign entity as

described in Section 1471(d)(3) of the Code and any additional information that may be requested in connection with FATCA and (b)(i) if the beneficial owner of a Note is a United States person, such United States person's name, address and U.S. taxpayer identification number, or (ii) if the beneficial owner of a Note is a United States-owned foreign entity, the name, address and taxpayer identification number of each of its substantial United States owners as defined in Section 1473(2) of the Code and any other information requested by us or our agent upon request, and (c) updated information promptly upon learning that any such information previously provided is obsolete or incorrect.

If FATCA were to require that an amount in respect of U.S. withholding tax were to be deducted or withheld from any payment on or with respect to the Notes, then neither we nor any paying agent or other person would, pursuant to the conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. Holders of the Notes should consult their tax advisers regarding the effect, if any, of FATCA on their investment in the Notes.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement among us and the initial purchasers, we have agreed to sell to the initial purchasers, and each of the initial purchasers has agreed, severally and not jointly, to purchase from us, the principal amount of Notes set forth opposite its name below.

| Initial Purchasers | Principal Amount of Notes |
|------------------------------------|---------------------------|
| Citigroup Global Markets Inc. | U.S.\$197,000,000 |
| Deutsche Bank Securities Inc. | U.S.\$197,000,000 |
| Commerz Markets LLC | U.S.\$6,000,000 |
| Total | U.S.\$400,000,000 |

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement if any of these Notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the initial purchasers and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities.

The initial purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer's certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The initial purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed.

Notes Are Not Being Registered

The Notes have not been registered under the Securities Act or any state securities laws. The initial purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The initial purchasers will not offer or sell the Notes except to persons they reasonably believe to be qualified institutional buyers or pursuant to offers and sales to non-U.S. persons that occur outside of the United States within the meaning of Regulation S. In addition, until 40 days following the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "*Transfer Restrictions*."

New Issue of Notes

The Notes are a new issue of securities with no established trading market. Although we expect to apply to have the Notes listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market, we cannot assure you that an active market for the Notes will develop. We have been advised by the initial purchasers that they may make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our

operating performance and financial condition, general economic conditions and other factors. See “*Risk Factors—Risk Factors Relating to the Notes—There is no existing market for the trading of the Notes, and we cannot assure you that you will be able to sell your Notes in the future.*”

No Sales of Similar Securities

We have agreed that, for a period of 90 days after the date of this offering memorandum, we will not without first obtaining the prior written consent of Citigroup Global Markets Inc. and Deutsche Bank Securities Inc., directly or indirectly issue, sell, offer to contract or grant any option to sell, pledge, transfer or otherwise dispose of, any of our debt securities substantially similar to the Notes offered hereby in the international capital markets, except for the Notes sold to the initial purchasers pursuant to the purchase agreement.

Short Positions

In connection with the offering, the initial purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The initial purchasers must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the initial purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the initial purchasers’ purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor any of the initial purchasers make any representation that the initial purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

Some of the initial purchasers and their affiliates are lenders and arrangers under certain of our debt facilities. See “*Management’s Discussion and Analysis of Financial Position and Results of Operation—Liquidity and Capital Resources.*” Some of the initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

Notice to Prospective Investors in Panama

The Notes and the information contained in this offering memorandum have not been and will not be registered with or approved by the Panamanian National Securities Commission (*Superintendencia del Mercado de Valores de Panamá*) or the Panamanian Stock Exchange (*Bolsa de Valores de Panamá, S.A.*). Accordingly, the Notes cannot be offered or sold in Panama, except in transactions exempted from the registration requirements of the securities laws and regulations of Panama.

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) an offer to the public of any Notes which are the subject of the offering contemplated by this offering memorandum may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any Notes may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) by the initial purchasers to fewer than 100 natural or legal persons (other than “qualified investors” as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of Notes shall result in a requirement for the publication by us or any representative of a prospectus pursuant to Article 3 of the Prospectus Directive.

Any person making or intending to make any offer of Notes within the EEA should only do so in circumstances in which no obligation arises for us or any of the initial purchasers to produce a prospectus for such offer. Neither we nor the initial purchasers have authorized, nor do they authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the initial purchasers which constitute the final offering of Notes contemplated in this offering memorandum.

For the purposes of this provision, and your representation below, the expression “an offer to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Notes to be offered so as to enable an investor to decide to purchase any Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Notes under, the offer of Notes contemplated by this offering memorandum will be deemed to have represented, warranted and agreed to and with us and each initial purchaser that:

- (a) it is a “qualified investor” within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- (b) in the case of any Notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Notes acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than “qualified investors” (as defined in the Prospectus Directive), or in circumstances in which the prior consent of the representatives has been given to the offer or resale; or (ii) where Notes have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

Notice to Prospective Investors in Switzerland

This offering memorandum does not constitute an issue prospectus pursuant to Article 652a or Article 1,156 of the Swiss Code of Obligations. The Notes will not be listed on the SIX Swiss Exchange and, therefore, this offering memorandum may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe to the notes with a view to distribution. The prospective investors must be individually approached by a dealer from time to time.

Notice to Prospective Investors in the United Kingdom

With respect to offers and sales in the United Kingdom each initial purchaser has represented and agreed that:

- it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act of 2000, or “FSMA”) received by it in connection with the issue or sale of any Notes included in this offering in circumstances in which section 21(1) of the FSMA does not apply to the issuer; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes included in this offering in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Hong Kong

Each of the initial purchasers has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Notice to Prospective Investors in Japan

The Notes offered in this offering memorandum have not been registered under the Financial Instruments and Exchange Law of Japan. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except: (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law; and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Prospective Investors in Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore, or the SFA, and accordingly, the initial purchasers may not offer nor sell the Notes pursuant to an offering nor make the Notes the subject of an invitation for subscription or purchase, nor will the initial purchasers circulate or distribute this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes, whether directly or indirectly, to any person in Singapore other than under exemptions provided in the SFA for offers made (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) or any person, pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (c) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

Each holder of the Notes should note that any subsequent sale of the notes acquired pursuant to an offer in this offering memorandum made under exemptions (a) or (b) above within a period of six months from the date of initial acquisition is restricted to: (i) institutional investors (as defined in Section 4A of the SFA); (ii) relevant persons as defined in Section 275(2) of the SFA; and (iii) persons pursuant to an offer referred to in Section 275(1A) of the SFA.

Where the Notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

- (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; or (3) where the transfer is by operation of law.

Notice to Prospective Investors in Brazil

The Notes have not been and will not be issued nor publicly placed, distributed, offered or negotiated in the Brazilian capital markets. The issuance of the Notes has not been nor will be registered with the Comissão de Valores Mobiliários ("CVM"). Any public offering or distribution, as defined under Brazilian laws and regulations, of the Notes in Brazil, except for public offerings or distribution under registration exemptions set forth by Instruction No. 400, issued by the CVM on December 29, 2003, as amended, is not legal without prior registration under Law No. 6,385/76, as amended, and Instruction No. 400. Documents relating to the offering of the Notes, as well as information contained therein, may not be supplied to the public in Brazil (as the offering of the Notes is not a public offering of securities in Brazil), nor be used in connection with any offer for subscription or sale of the Notes to the public in Brazil. Therefore, each of the initial purchasers has represented, warranted and agreed that it has not offered or sold, and will not offer or sell, the Notes in Brazil, except in circumstances which do not constitute a public offering, placement, distribution or negotiation of securities in the Brazilian capital markets regulated by Brazilian laws and regulations.

Persons wishing to offer or acquire the Notes within Brazil should consult with their own counsel as to the applicability of registration requirements or any exemption therefrom.

Notice to Prospective Investors in Chile

The offer of the Notes will begin on October 20, 2014 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*, SVS). The Notes being offered are not registered in the Securities Registry (*Registro de Valores*) or the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and therefore, the Notes are not subject to the supervision of the SVS. As unregistered securities, we are not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

La oferta de los valores comienza el 20 de Octubre del 2014 y está acogida a la NCG 336 de fecha 27 de junio de 2012 de la Superintendencia de Valores y Seguros de Chile (la SVS). La oferta versa sobre valores no

inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública al respecto de los valores. Estos valores no pueden ser objeto de oferta pública menos que sean inscritos en el registro de valores correspondiente.

Notice to Prospective Investors in Colombia

The Notes have not been and will not be registered on the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) or in the Colombian Stock Exchange. Therefore, the Notes may not be publicly offered in Colombia. This material is for your sole and exclusive use as a determined entity, including any of your shareholders, administrators or employees, as applicable. You acknowledge the Colombian laws and regulations (specifically foreign exchange and tax regulations) applicable to any transaction or investment consummated pursuant hereto and represent that you are the sole liable party for full compliance with any such laws and regulations.

Notice to Prospective Investors in Peru

The Notes and the information contained in this offering memorandum are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to the offering of the Notes and therefore, the disclosure obligations set forth therein will not be applicable to the issuer or the sellers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this offering memorandum have not been and will not be reviewed, confirmed, approved or in any way submitted to the Peruvian National Supervisory Commission of Companies and Securities (*Comisión Nacional Supervisora de Empresas y Valores*) nor have they been registered under the Securities Market Law (*Ley del Mercado de Valores*) or any other Peruvian regulations. Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein. The Notes have been registered with the Superintendence of Banking, Insurance and Private Pension Funds (*Superintendencia de Bancos, Seguros y Administradoras Privadas de Fondos de Pensiones*) so that they could qualify as eligible instruments and be acquired by Peruvian Private Pension Funds Administrators.

Notice to Prospective Investors in Mexico

The Notes have not been and will not be registered with the National Securities Registry (*Registro Nacional de Valores*) maintained by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*), and may not be offered or sold publicly or otherwise be the subject of brokerage activities in Mexico, except pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*).

TRANSFER RESTRICTIONS

Because the following restrictions will apply with respect to the resale of the Notes, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the Notes.

The Notes have not been, and will not be, registered under the Securities Act or any state securities laws, and they may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (A) to QIBs in compliance with Rule 144A and (B) outside of the United States in offshore transactions in reliance upon Rule 903 or Rule 904 of Regulation S under the Securities Act, or Regulation S. As used herein, the terms "United States" and "U.S. person" have the meanings given to them in Regulation S.

Each purchaser of the Notes in the United States will be deemed to have represented and agreed as follows: the purchaser is either (1) a QIB and is aware that the sale of the Notes to it is being made in reliance on exemptions from the registration requirements of the Securities Act and such acquisition will be for its own account or for the account of a qualified institutional buyer or (2) a non-U.S. person who, at the time the buy order for the Notes was originated, was outside of the United States.

In making its decision to purchase the Notes, the purchaser understands and acknowledges that:

- the Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act; that the Notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- it shall not resell or otherwise transfer any of such Notes, except (A) to the Company or any of its subsidiaries, (B) to a QIB in a transaction complying with Rule 144A, (C) outside of the United States in compliance with Rule 903 or Rule 904 of Regulation S, (D) in accordance with another exemption from the registration requirements of the Securities Act (if available and based upon an opinion of counsel if the Company so requests) or (E) pursuant to an effective registration statement under the Securities Act;
- it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;
- prior to any proposed transfer of Notes in certificated form or of beneficial interests in a Global Note (in each case other than pursuant to an effective registration statement), the holder of Notes or the holder of beneficial interests in a Global Note, as the case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the Indenture;
- it understands that the Restricted Global Note will bear a legend substantially to the following effect unless otherwise agreed by us and the holder thereof:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A QUALIFIED INSTITUTIONAL BUYER (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S

UNDER THE SECURITIES ACT (“REGULATION S”) AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) (I) TO THE ISSUER OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S, OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.

THIS LEGEND MAY ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH PARAGRAPH 2A(V) ABOVE, THE ISSUER RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS, OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

- it understands that the Regulation S Global Note will bear a legend substantially to the following effect unless otherwise agreed by us and the holder thereof.

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”)), THIS SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON, EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE. THE TERMS “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S.

- the foregoing restrictions apply to holders of beneficial interests in the Notes, as well as holders of the Notes;
- the trustee will not be required to accept any Notes for registration of transfer or exchange, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with; and
- we, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agree that if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of the Notes is no longer accurate, it shall promptly notify us and the initial purchasers. If it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each account.

LEGAL MATTERS

The validity of the Notes will be passed upon for us by Mayer Brown LLP, our U.S. counsel, and by Arifa, our Panamanian counsel, and for the initial purchasers by Clifford Chance US LLP, U.S. counsel for the initial purchasers.

INDEPENDENT AUDITORS

Our annual consolidated financial statements as of June 30, 2014, 2013 and 2012 and for the years ended June 30, 2014, 2013, and 2012 included in this offering memorandum have been audited by Deloitte, Inc., a member firm of Deloitte Touche Tohmatsu Limited, independent auditors, as stated in their report appearing herein.

LISTING AND GENERAL INFORMATION

1. Global Bank Corporation, with registered offices located at Global Bank Tower, Calle 50, Panama City, Panama, is responsible for the information contained in this offering memorandum. To the best of our knowledge, the information in this offering memorandum is in accordance with the facts and contains no omissions likely to affect the import of this offering memorandum.

2. The issuance of the Notes has been authorized by the resolutions of our Board of Directors dated October 8, 2014.

3. Except as disclosed herein, we have not been involved in any governmental, legal or arbitration proceedings (including during the twelve months preceding the date of this offering memorandum) which may have a significant effect on our financial position or profitability. We are not aware that any such proceedings are pending or threatened.

4. Except as disclosed herein, there has been no material adverse change, or any development reasonably likely to involve an adverse change, in our condition (financial or otherwise) or general affairs since June 30, 2014 (the end of the most recent fiscal year for which audited consolidated financial statements have been prepared) that is material in the context of the issuance of the Notes.

5. For so long as the Notes are listed on the Luxembourg Stock Exchange, copies of the following documents (together, where necessary, with English translations thereof) in physical format may be obtained free of charge during normal business hours, at our principal office, at the address listed on the inside back cover page of this offering memorandum, and at the offices of the Luxembourg listing agent:

- this offering memorandum;
- our latest published annual audited year-end consolidated financial statements and quarterly unaudited consolidated financial statements;
- our by-laws (*estatutos sociales*); and
- the indenture governing the Notes.

6. The Notes have been accepted for clearance and settlement through DTC and its participants' accounts for Euroclear and Clearstream, Luxembourg. The CUSIP, ISIN and Common Code numbers, as applicable, for the Notes are as follows:

Restricted Global Note
CUSIP: 37954J AA4

Restricted Global Note
ISIN: US37954JAA43

Restricted Global Note
Common Code: 112983872

Regulation S Global Note
CUSIP: P47718 AA2

Regulation S Global Note
ISIN: USP47718AA21

Regulation S Global Note
Common Code: 112985026

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Global Bank Corporation and Subsidiaries

Consolidated financial statements for the years ended
June 30, 2014 and 2013 and Independent Auditors'
Report dated July 25, 2014

Global Bank Corporation and Subsidiaries

Independent Auditors' Report and 2014 Consolidated Financial Statements

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INDEPENDENT AUDITORS' REPORT

Messrs.
Shareholder and Board of Directors
Global Bank Corporation and Subsidiaries
Panama, Republic of Panama

We have audited the accompanying consolidated financial statements of **Global Bank Corporation and Subsidiaries** which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the consolidated statements of profits or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as they have been modified by prudential regulations issued by the Superintendency of Banks of Panama, for the purposes of supervision and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or errors. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Deloitte.

Opinion

In our opinion, the consolidated financial statements present fairly, in all important respects, the financial position of **Global Bank Corporation and Subsidiaries** as at June 30, 2014 and 2013, and its results of operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards, as they have been modified by prudential regulations issued by the Superintendency of Banks of Panama, for the purposes of supervision as described in Note 3.1 of the consolidated financial statements.

Other Matters

As disclosed in Note 3, as of June 30, 2014, the consolidated financial statements include the financial statements of its subsidiary Aseguradora Global, S.A., which are presented in conformity with International Financial Reporting Standards; therefore, IFRS 1 *First Time Adoption* has been applied. The effects of this adoption are presented in Note 30.

/s/ Deloitte, Inc.

July 25, 2014
Panama, Republic of Panama

Global Bank Corporation and Subsidiaries

Consolidated statements of financial position

June 30, 2014 and 2013

(In balboas)

| | Notes | 2014 | 2013 | |
|--|-----------|---------------|---------------|--|
| Assets | | | | Liabilities and equity |
| Cash and cash items | | 40,965,134 | 34,224,420 | Due to customers: |
| Due from banks: | | | | Demand - domestic |
| Demand - domestic | | 37,642,806 | 29,436,346 | Demand - foreign |
| Demand - foreign | | 90,441,719 | 45,151,027 | Savings - domestic |
| Time - domestic | | 103,524,000 | 170,404,000 | Savings - foreign |
| Time - foreign | | 152,023,495 | 209,124,270 | Time - domestic |
| | | | | Time - foreign |
| Total due from banks | | 383,632,020 | 454,115,643 | Interbank time deposits - domestic |
| Total cash, cash items and due from banks | 8, 15 | 424,597,154 | 488,340,063 | Total clients' and interbank deposits |
| Securities purchased under resale agreements | 9 | 3,000,011 | 5,497,680 | Securities sold under repurchase agreements |
| Securities available-for-sale | 10,15 | 405,724,691 | 271,593,529 | Borrowed funds |
| Loans: | 7, 11, 17 | | | Commercial papers |
| Domestic | | 3,241,389,304 | 2,747,447,890 | Corporate bonds payable |
| Foreign | | 293,266,250 | 213,364,174 | Convertible bonds |
| | | 3,534,655,554 | 2,960,812,064 | Subordinated bonds |
| Less: | | | | Other liabilities: |
| Allowance for loan losses | | 46,178,147 | 41,708,500 | Cashier's and certified checks |
| Unearned interest and commission | | 10,553,676 | 16,335,857 | Accrued interest payables |
| | | | | Acceptances outstanding |
| | | | | Other liabilities: |
| Loans, net | | 3,477,923,731 | 2,902,767,707 | Total other liabilities |
| Property, furniture, equipment and improvements, net | 12 | 55,893,751 | 48,736,297 | Total liabilities |
| Other assets: | | | | Equity: |
| Accrued interest receivables: | 7 | | | Common shares |
| Time deposits | | 238,284 | 244,422 | Capital paid in excess |
| Loans | | 24,092,481 | 22,362,105 | Capital reserve |
| Investments | | 3,915,858 | 3,785,680 | Regulatory reserve |
| Client's obligations under acceptances | | 2,147,425 | 558,128 | Net changes in available for sale securities |
| Goodwill, net | | 8,355,187 | 8,355,187 | Net changes in hedging instruments |
| Deferred income tax | 28 | 11,675,460 | 11,469,838 | Retained earnings |
| Other assets | 7,13 | 62,063,179 | 47,385,188 | |
| Total other assets | | 112,487,874 | 94,160,548 | Total equity |
| Total assets | | 4,479,627,212 | 3,811,095,824 | Total liabilities and equity |

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

Global Bank Corporation and Subsidiaries

Consolidated statements of profit or loss For the years ended June 30, 2014 and 2013 (In balboas)

| | Notes | 2014 | 2013 |
|--|-------|--------------------|--------------------|
| Interest and commission income | | | |
| Interest earned on: | 7 | | |
| Loans | | 207,867,228 | 187,147,992 |
| Deposits | | 1,244,830 | 1,332,132 |
| Investments | | 17,841,619 | 19,234,443 |
| Total interest earned | | <u>226,953,677</u> | <u>207,714,567</u> |
| Commission income on: | | | |
| Loans | | 22,478,006 | 16,562,843 |
| Letters of credit | | 4,339,862 | 2,158,168 |
| Saving accounts and debit cards | 31 | 3,470,340 | 2,930,190 |
| Fiduciary and management services | 31 | 2,140,734 | 1,520,682 |
| Others | 31 | 6,884,795 | 6,028,366 |
| Total commission income | | <u>39,313,737</u> | <u>29,200,249</u> |
| Total interest and commission income | | <u>266,267,414</u> | <u>236,914,816</u> |
| Interest and commission expenses | | | |
| Interest expenses on: | 7 | | |
| Deposits | | 73,456,297 | 66,186,375 |
| Borrowed funds and repurchase agreements | | 8,144,388 | 11,964,591 |
| Commercial papers and corporate bonds | | 29,035,279 | 22,505,495 |
| Commission expenses | | <u>7,959,177</u> | <u>5,171,195</u> |
| Total interest and commission expenses | | <u>118,595,141</u> | <u>105,827,656</u> |
| Net interest and commission income, before allowance | | <u>147,672,273</u> | <u>131,087,160</u> |
| Less: allowance for loan losses | 11 | <u>(8,000,004)</u> | <u>(8,499,996)</u> |
| Net interest and commission income, after allowance | | <u>139,672,269</u> | <u>122,587,164</u> |
| Other income | | | |
| Net gain on redemption and securities sold | 10 | 7,072,024 | 26,495,473 |
| Net loss on financial instruments | 10,21 | (123,514) | (2,313,094) |
| Insurance premiums, net | | 4,547,858 | 3,428,080 |
| Fiduciary and brokerage services | | 84,325 | 129,535 |
| Other income | | <u>3,446,361</u> | <u>2,049,323</u> |
| Total other income, net | | <u>15,027,054</u> | <u>29,789,317</u> |
| Total income, net | | <u>154,699,323</u> | <u>152,376,481</u> |
| General and administrative expenses | | | |
| Salaries and wages | 7,24 | 36,725,405 | 31,117,503 |
| Professional fees | | 4,505,892 | 4,112,599 |
| Depreciation and amortization | 12 | 6,767,345 | 5,968,922 |
| Marketing and advertising | | 4,032,430 | 3,904,654 |
| Maintenance and repairs | | 5,145,994 | 4,509,632 |
| Rentals | 25 | 2,689,945 | 2,295,627 |
| Communications and postage | | 1,308,337 | 1,247,702 |
| Stationery supplies | | 824,197 | 878,446 |
| Insurances | | 4,199,544 | 3,924,573 |
| Surveillance | | 1,519,699 | 1,311,095 |
| Other taxes | | 3,259,428 | 3,042,125 |
| Others | | <u>9,194,306</u> | <u>8,806,807</u> |
| Total general and administrative expenses | | <u>80,172,522</u> | <u>71,119,685</u> |
| Profit before income tax | | <u>74,526,801</u> | <u>81,256,796</u> |
| Income tax: | 28 | | |
| Current | | 8,761,912 | 9,468,338 |
| Deferred | | <u>(205,622)</u> | <u>251,850</u> |
| Income tax, net | | <u>8,556,290</u> | <u>9,720,188</u> |
| Net income | | <u>65,970,511</u> | <u>71,536,608</u> |

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

Global Bank Corporation y Subsidiarias

Consolidated statements of comprehensive income

For the years ended June 30, 2014 and 2013

(In balboas)

| | Notes | 2014 | 2013 |
|--|-------|-------------------|-------------------|
| Net income | | <u>65,970,511</u> | <u>71,536,608</u> |
| Other comprehensive income (expenses): | | | |
| Items that may be reclassified subsequently to consolidated statement of profit or loss: | | | |
| Net income realized in securities available-for-sale transferred to income | 10 | 7,072,024 | 26,495,473 |
| Net changes in securities available-for-sale | 10 | (3,042,541) | (15,341,185) |
| Net changes in hedging instruments | 21 | <u>50,924</u> | <u>63,090</u> |
| Total other comprehensive income, net | | <u>4,080,407</u> | <u>11,217,378</u> |
| Total comprehensive income | | <u>70,050,918</u> | <u>82,753,986</u> |

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

Global Bank Corporation and Subsidiaries

Consolidated statements of cash flows For the years ended June 30, 2014 and 2013 (In balboas)

| | Notes | 2014 | 2013 |
|---|-------|---------------|---------------|
| Cash flows from operating activities | | | |
| Net income | | 65,970,511 | 71,536,608 |
| Depreciation and amortization | 12 | 6,767,345 | 5,968,922 |
| Gain on sale of furniture and equipment | 12 | (47,165) | (7,609) |
| Gain on sale of available for sale securities | 10 | (7,072,024) | (26,495,473) |
| Allowance for loan losses | 11 | 8,000,004 | 8,499,996 |
| Income tax expense | 28 | 8,556,290 | 9,720,188 |
| Interest income | | (226,953,677) | (207,714,567) |
| Interest expense | | 110,635,964 | 99,724,860 |
| Allowance for seniority premium | | 690,045 | 578,304 |
| Share based payments | 24 | 981,756 | - |
| Net changes in operating assets and liabilities: | | | |
| Decrease in time deposits over 90 days | 8 | 1,180,000 | 10,894,000 |
| Decrease in restricted time deposits | 8 | 451,818 | 15,996,667 |
| Decrease (increase) in securities purchased under resale agreements | | 2,497,669 | (4,453,180) |
| Increase in loans | | (577,373,847) | (439,402,911) |
| (Decrease) in unearned interests and commissions | | (5,782,181) | 3,497,446 |
| Increase in other assets | | (33,692,593) | (18,650,186) |
| Increase in demand deposits and savings accounts | | 172,035,365 | 112,549,371 |
| Increase in time deposits | | 51,966,240 | 205,706,247 |
| Increase in interbank deposits | | 15,438,329 | 21,256,477 |
| Increase in other liabilities | | 10,468,289 | 11,435,690 |
| Income tax paid | | 8,663,394 | 6,271,583 |
| Interest received | | 225,099,261 | 206,647,641 |
| Interest paid | | (107,185,049) | (96,078,334) |
| Seniority premium paid | | (320,621) | (140,025) |
| Net cash used in operating activities | | (269,024,877) | (2,658,285) |
| Cash flow from investing activities | | | |
| Purchases of securities available for sale | 10 | (238,856,218) | (50,172,840) |
| Sale and redemptions of securities available for sale | 10 | 115,826,563 | 233,364,949 |
| Purchase of securities held to maturity | 10 | - | (25,095,502) |
| Redemptions of securities held to maturity | 10 | - | 6,991,409 |
| Purchase of properties, furniture and equipment | 12 | (14,221,585) | (13,655,531) |
| Proceeds from sale of properties, furniture and equipment | 12 | 343,951 | 579,355 |
| Net cash (used in) provided by investing activities | | (136,907,289) | 152,011,840 |
| Cash flows from financing activities | | | |
| Securities sold under repurchase agreements | | 635,850 | (29,915,818) |
| Proceed from borrowed funds | | 220,780,963 | 14,110,154 |
| Borrowed funds-paid | | (58,630,781) | (160,771,313) |
| Proceeds from issuance of commercial papers and corporate bonds issued | | 191,237,063 | 177,495,129 |
| Dividends paid | 23 | (8,264,645) | (9,330,040) |
| Proceeds from adjustment to regulatory reserve | | - | 70,730 |
| Proceeds from regulatory reserve | | (866,041) | 464,164 |
| Complementary tax | | (1,071,334) | (773,748) |
| Net cash provided by (used in) financing activities | | 343,821,075 | (8,650,742) |
| (Decrease) increase in cash and cash equivalents | | (62,111,091) | 140,702,813 |
| Cash and cash equivalents at the beginning of the year | | 473,457,730 | 332,754,917 |
| Cash and cash equivalents at the end of the year | | 411,346,639 | 473,457,730 |
| Non monetary transaction: | | | |
| Held to maturity investment reclassified to available for sale securities | 10 | - | 282,414,785 |
| Proceeds from regulatory reserve | | - | 70,730 |

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

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements

June 30, 2014 and 2013

(In balboas)

1. General information

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

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

The Bank is a wholly-owned subsidiary of G.B. Group Corporation, incorporated on April 20, 1993 under the laws of the Republic of Panama.

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

- Factor Global, Inc., a Panamanian company that started operations in 1995, mainly engaged on factoring business of invoices issued by third parties.
- Global Financial Funds Corporation, a Panamanian company that started operations in 1995, mainly engaged in the trust activities.
- Global Capital Corporation, a Panamanian company that started operations in 1994, mainly engaged in corporate financial business and financial advisory services.
- Global Capital Investment Corporation, a company incorporated under the Laws of Companies of Tortola, British Virgin Islands, started operations in 1993, mainly engaged in factoring business of invoices issued by third parties.
- Global Valores, S.A., a Panamanian company that started operations in 2002, mainly engaged in the brokerage business through Stock Exchange of the Republic of Panama. The operations of Global Valores, S.A. are regulated by the Superintendency of Securities Exchange of Panama in accordance with the laws established by Decree Law No.1 of July 8, 1999. Besides, the operations of brokerage business, are regulated by the Agreement 4-2011 established by the Superintendency of Securities Exchange of Panama, that establishes the obligation to comply with the capital adequacy standards, solvency ratio, capital fund, liquidity index, concentration of credit risk and overheads. Additionally, as of September 18, 2013, the Superintendency of Securities Exchange of Panama, issued 8-2013 Agreement, whereby certain provisions of Agreement 4-2011 dated June 27, 2011 were amended, such as: adequate capital on relationship solvency capital funds, liquidity ratio and risk concentration that brokerage houses in Panama must comply.

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements

June 30, 2014 and 2013

(In balboas)

- Global Bank Overseas, Ltd., a Bank incorporated under the laws of Companies of Montserrat, British West Indies in August 25, 2003, began operations in October, 2003. The entity is engaged in foreign banking business.
- Aseguradora Global, S.A., a Panamanian company incorporated on April 2003, was acquired by the Bank on December 2004, engaged in subscription and issuance of all risks insurance policies mainly to the bank's clients.
- Durale Holdings S. A., a Panamanian company incorporated on January 2006, mainly engaged in real estate business.
- Inmobiliaria Arga, S. A., Panamanian company incorporated on December 2009, mainly engaged in real estate business.

2. Application of International Financial Reporting Standards (IFRS)

2.1 IFRS new and revised issued with effects on the consolidated financial statements

In the current period, the Bank implemented several of new and revised IFRS issued by the International Accounting Standards Board (IASB) that are mandatory and which become effective from fiscal years beginning on or after July 1, 2013.

Amendments to IAS 1 - Presentation of Items of Other Comprehensive Income

The Banks has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' [and the 'income statement' is renamed as the 'statement of profit or loss']. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements

June 30, 2014 and 2013

(In balboas)

IFRS 13 - Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurement and disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instruments items and non-financial instruments items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for the share based payment transactions that are within the scope of IFRS 2 *Share Based Payments*, leasing transactions under the scope of IFRS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

Fair value under IFRS 13 is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market condition.

Under IFRS 13, the fair value is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique. In addition, IFRS 13 requires extensive disclosures about fair value measurements.

IFRS 13 applies prospectively to annual periods beginning on or after January 1, 2013. Entities that apply IFRS 13 for the first time do not need to make the disclosures set out in IFRS 13 in comparative information provided for periods before initial application.

2.2 Standards and Interpretations with no effects on the consolidated financial statements adopted

IFRS 10 - Consolidated Financial Statements

IFRS 10 replaced the parts of IAS 27 - *Consolidated and Separate Financial Statements* dealing with the consolidated financial statements. Upon issuance of IFRS 10, SIC 12 *Consolidation - Special Purpose Entities* has been removed. Under IFRS 10, there is only one basis for consolidation for all entities, and that basis is control. Besides, IFRS 10 includes a new definition of control that includes three elements: (a) power over investee, (b) exposure, or rights, to variable returns from its involvement with the investee and (c) ability to use its power over the investee to affect the amounts of the investor's returns. IFRS 10 contains extensive guidance that aims to help deal with complicated issues.

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements June 30, 2014 and 2013 (In balboas)

IFRS 11 - Joint Ventures

IFRS 11 replaced IAS 31 - Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures, according to the rights and obligations of the parties to the agreements.

IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 is a disclosure standard applicable to entities that have interests in subsidiaries, joint ventures, associates and/or unconsolidated structured entities.

Amendment to IFRS 7 Disclosures - Netting of Financial Assets and Liabilities

Amendments to IFRS 7 require entities to disclose information about the rights of netting and related arrangements for financial instruments under an enforceable master netting agreement or similar agreement.

Amendment to IAS 19 - Employee Benefits

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant changes relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the “corridor approach” permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the statement of financial position to reflect the full value of the plan deficit or surplus. In addition, Under NIC 19 (as revised in 2011), the interest costs and the expected return on plan assets used in the previous version of IAS 19 were replaced with an amount in “net interest” calculated by applying a discount rate to the net defined benefits liability of assets.

2.3 IFRS news and revised issued but not yet effective

New and revised IFRS issued that are not mandatorily effective:

IFRS 9

Financial instruments

Amendments to IFRS 9 and IFRS 7

IFRS 9 Mandatorily effective date for IFRS 9 and transitional disclosures provision

Amendments to IFRS 10, IFRS 12 and IAS 27

Investment entities

Amendments IAS 32

Offsetting financial assets and liabilities

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements

June 30, 2014 and 2013

(In balboas)

IFRS 9 - Financial Instruments

Issued in November 2009 and amended in October 2010 introduces new requirements for the classification, measurement and derecognition of financial assets and financial liabilities.

The main requirements by IFRS 9 are described as follows:

- All recognized financial assets that are currently under the scope of IAS 39 Financial Instruments, Recognition and Measurement will be subsequently measured at either amortised cost or fair value. Specifically, a debt instrument that is held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding is generally measured at amortised cost. All other debt and equity instruments must be measured at fair value through profit or loss at the end for subsequent accounting periods. Besides, under IFRS 9, an irrevocable election can be made by the entities to present the subsequent changes in the fair value of equity investments (not held for trading) in other comprehensive income, only with dividend income generally recognized in the consolidated statement in profit or loss and other comprehensive income.
- With regard to the measurement of financial liabilities designated as at fair value with changes in profit or loss, IFRS 9 requires that the amount of changes in the fair value of the financial liability attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge and accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

On July 24, 2014, the final version of IFRS 9 was issued to adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income (FVTOCI) category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test. This amendment completes the IASB's financial instruments project and the Standard is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted (subject to local endorsement requirements).

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Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

Amendments to IFRS 10 define an investment entity and require that the reporting entity, meet the definition of investment entity, is not a consolidation of its subsidiaries, instead in its consolidated and separate financial statements measure its subsidiaries at fair value through profit or loss.

To qualify as an investment entity, a reporting entity has the following obligations:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commits to its investor (s) that its business purpose is to invest fund solely for returns from capital appreciation, investment income, or both.
- Measure and evaluates performance of substantially all of its investments on a fair value basis.

Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

The Bank's management does not anticipate that the amendments to investment entities will have any impact on the consolidated financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

Amendments to IAS 32 clarify requirements related to offsetting financial assets and financial liabilities. This amendment is effective for annual periods beginning on or after January 1, 2014.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

Amendments to IAS 39 indicate that there is no need to discontinue hedge accounting if the hedging derivative was renewed, provided it meets certain criteria. This amendment is effective for annual periods beginning on or after January 1, 2014.

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IFRIC 21 Liens

New interpretation provides guidance on when to recognize a liability for a tax assessment by the government for both charges to be accounted for in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as for the timing and amount of lien are true. This new interpretation is effective for annual periods beginning on or after January 1, 2014.

IFRS 14 Regulatory Deferral Accounts

Permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes.

- For regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.
- Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required.
- IFRS 14 applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016, with early application permitted.

IFRS 15 Revenue from Contracts with Customers

The Standard provides to the entities with a single model for the accounting of the revenue from contracts with customers, and replaces all the income recognition industries guidance. The model fundamental principle is to recognize the income when the control of goods and services are transferred to the customers instead of recognize the income when the related risks and rewards are transferred to the customers, as required by the current standard. The new standard provides a single, five-step model based on principles to be applied to all contracts with customers. IFRS 15 applies to an annual reporting period beginning on or after 1 January 2017.

The Bank's management is evaluating the possible impact of these amendments on the consolidated financial statements.

2.4 *New Regulatory Standards of Superintendency Bank Panama*

New Regulatory Standards that will enter into force within one year

Agreement No.4-2013

Agreement No.4-2013 dated 28 May 2013. Whereby provisions on credit risk management inherent in credit portfolio and off-balance sheet transactions are established. This Rule shall enter into force on June 30, 2014. Nevertheless, there is an adjustment period for the establishment of the specific and dynamic reserves from December 31, 2014 up to December 31, 2015, respectively.

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General Resolution SBP-GJD-0003-2013

Board of Directors' General Resolution SBP-GJD-0003-2013 dated 9 July 2013. Whereby the accounting treatment of differences between prudential regulations and the International Financial Reporting Standards (IFRS) are established pursuant to the provisions of Article 3 of Rule 6-2012. This Rule shall enter into force for periods ending on or after December 31, 2014.

Due to the nature of its financial operations, the Bank is in the process of determining the impact that these new regulatory standards could have on the consolidated financial statements.

3. Most significant accounting policies

3.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis, except investments available-for-sale and derivative instruments, which are stated at fair value.

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as they have been modified by prudential regulations issued by the Superintendency of Bank of Panama for monitoring purposes. With respect to the Bank, the most significant changes introduced by the prudential regulations that establish a different treatment to International Financial Reporting Standards relate to:

1. Measurement of impairment for possible loan losses - IAS 39.
2. Measurement of impairment for property acquired as compensation for outstanding claims - IFRS 5.
3. Classification and measurement of impairment of investment securities - IAS 39.

IAS 39 and IFRS 5 set out that the reserve for possible loan losses is based on the incurred or historical losses while the regulation requires the determination of the reserve for expected losses.

The accounting policies adopted by the Bank in compliance with the agreements issued by the Superintendency of Bank of Panama are described in Note 3 to these consolidated financial statements.

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Fair value is defined as 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 liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and or disclosure purposes, is determined on such a basis except for share based payment transactions that are within the scope of IFRS 2.

In addition, for financial reporting purposes fair value measurements are categorized into Level 1, 2, and 3 based on the degree to which the inputs to the fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety, which are described in Note 5.

3.2 *Principle of consolidation*

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

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

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

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

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

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

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

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Bank are eliminated in full on consolidation.

Changes in the Banks' ownership interests in existing subsidiaries

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

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

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

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3.3 Foreign currency transactions

Monetary assets and liabilities denominated in foreign currency at the reporting date are retranslated to the functional currency at the spot exchange rate at that date except for those transactions whose exchange rate were contractually set. Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the date of transactions. Non monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are generally recognised in profit or loss except for the differences arising from the reconversion of available for sale securities, a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective and qualifying cash flow hedges to the extent that the hedge is effective.

Functional currency and presentation

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

3.4 Segment reporting

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

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3.5 *Financial assets*

Financial assets are classified into the following specific categories: securities purchased under resale agreements, to securities available-for-sale and loans. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. All purchases or sales of financial assets are recognized on the settlement date.

Securities available-for-sale

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

After initial recognition, securities available-for-sale are measured at their fair value. For those cases where fair value estimates are not reliable, investments are held at cost or amortized cost less any identified impairment loss.

Gains or losses arising from changes in fair value of securities available-for-sale are recognized directly in equity until are discharged the financial assets or impairment is determined. At this time, the cumulative gain or loss, previously recognized in equity is recognized in the results.

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

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

Loans

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

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

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Financial leasing

Finance leases consist primarily of leases for equipment and rolling stock, which are reported as part of the loan portfolio at the present value of the lease. The difference between the gross receivable and the present value of the receivable is recognized as unearned interest income, which is amortized to income using a method that reflects a periodic rate of return.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to receive cash flows have expired or when the Bank has transferred financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank does not transfer or retain substantially all the risks and benefits of ownership and control continues with the asset transferred, the Bank recognizes its retained interest in the assets and liabilities related to the amounts that it may have to pay. If the Bank retains substantially all risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a liability secured by the amount received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the consolidated statement of profit or loss and other comprehensive income.

3.6 Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

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

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Liabilities from financial guarantee contracts

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

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

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

Financing

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

Other financial liabilities

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

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Derecognition of financial liabilities

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

Dividends

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

3.7 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 enforced, to offset the recognized amounts of such instruments, as well as the intention to liquidate the net amount, or to realize the asset and pay the liability simultaneously.

3.8 Income and interest expense

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

Likewise, the Agreement 6-2000 stipulated that the recognition of interests should be suspended when the debtor has not made the payment of capital or interest more than 90 days in the case of commercial loans and more than 120 days in consumer loans.

3.9 Commission income

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

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3.10 Impairment of financial assets

Loans

Loans receivable are presented deducted from the allowance for possible loans losses on the consolidated statement of financial position. When a loan is determined as uncollectible, the unrecoverable amount is charged to that allowance account. Recoveries of loans previously written off as uncollectible are credited to the reserve account.

The Superintendency of Banks of Panama requires that financial statements presented by banks in Panama, including annual and interim financial statements, must include the accounting recognition and presentation of allowance for loan losses based on prudential rules for the creation of such allowance issued by the regulator. Based on the rules of the regulator, Agreement 6-2000 issued by the Superintendency of Banks of the Republic of Panama, the Bank classifies loans into five risk categories and determines the minimum amount of allowance for losses on the principal balance as follows:

| <u>Loan categories</u> | <u>Minimum percentages</u> |
|------------------------|----------------------------|
| Normal | 0% |
| Special mention | 2% |
| Subnormal | 15% |
| Doubtful | 50% |
| Uncollectible | 100% |

For this purpose, a criterion was used for the classification such as the quality of the loan and default parameters to service debt, among others. The criterion for default periods is mainly used to classify consumer and housing loans, but is also considered in the classification of corporate lending.

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Additionally, within a period not exceeding 90 days, the Bank shall adjust the previous classification of loans and constitute new specific provisions, if applicable, depending on the estimated losses, as follows:

| <u>Loan categories</u> | <u>Minimum percentages</u> |
|-------------------------------|-----------------------------------|
| Special Mention | 2% up to 14.9% |
| Subnormal | 15% up to 49.9% |
| Doubtful | 50% up to 99.9% |
| Uncollectible | 100% |

When calculating the estimated losses, the Bank, among others, considers the debtor's financial statements, operating cash flows, realization value of real guarantees, and any other cash flow that would be obtain from co-debtors or guarantors. For the consumer portfolio, the following are considered: the debtor's delinquency, the losses that the Bank has historically experienced in the past in similar or comparable groups, the maturity profile of the portfolio and any other information that might affect the collection of the consumer portfolio.

In addition, Agreement 6-2000 allows the creation of general reserves for loan losses provisionally, when there is knowledge of the deterioration in the value of a group of loans that have defined common features and that have not attributable to loans individually.

At any time, Banks are required to maintain a global reserve for loan losses of not less than 1% of its total loan portfolio, less the deposit guarantees at the same bank. This global reserve shall not be less than the sum of the specific and general reserves.

The Superintendence of Banks of Panama may assess the sufficiency of allowance and require the Bank to constitute allowance at any time.

Securities classified as available-for-sale

At the date of the consolidated statement of financial position, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity and debt instruments classified as available-for-sale, a significant or prolonged decline in fair value of the financial asset that is below its cost is considered in determining whether the financial asset is impaired. If such evidence exists for financial assets available-for-sale, the accumulated loss measured as the difference between acquisition cost and current fair value, less any impairment loss in the previously recognized financial assets, in profit or loss, is removed from equity and recognized in the consolidated statement of profit or loss.

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Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss, but its amount is recognized in the equity account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increase and this increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is recognized through the consolidated statement of profit or loss.

3.11 Securities purchased under resale agreements

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

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

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

3.12 Leasing receivables

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

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

3.13 Operating leasing

For operating leases, the ownership of the leased asset or substantially all risks and inherent incidental rewards will remain with the lessor. When is the lessee, lease costs, including appropriate incentives provided by the lessor, literally charging the consolidated statement of profit or loss.

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3.14 Property, furniture, equipment and improvements

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

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

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

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

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

3.15 Foreclosed assets

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

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

For regulatory purposes, the Superintendency of Banks of Panama set at five (5) years, from the date of registration in the Public Register, the deadline to dispose of foreclosed real estate acquired. If after this period, the Bank has not sold the property acquired, an independent appraisal should be done to determine if it has declined in value, applying the provisions of IFRS, it means the lower between the cost of sale and book value.

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Likewise, the Bank must create an allowance in the equity account, through the appropriation in the following order: a) its retained earnings, b) profit or loss, which should be charged the following to the amount of foreclosed assets:

- First year: 10%
- Second year: 20%
- Third year: 35%
- Fourth year: 15%
- Fifth year: 10%

The above allowance will remain until the effective transfer of the property acquired is made; the reserve will not be considered as regulatory allowance for purposes of calculating the capital ratio.

3.16 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.

Gains and losses on a disposition include carrying value of goodwill of the entity sold. Goodwill is allocated to cash generating units for the purpose of assessing impairment.

3.17 Impairment of non-financial assets

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

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

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

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

As of June 30, 2014, Management had not identified impairment loss of its non-financial assets.

3.18 Securities sold under repurchase agreements

Securities sold under repurchase agreements generally are accounted as short-term financing transactions guaranteed with securities, and are recorded for the amount in which the securities were sold plus accumulated interest.

The Bank evaluates the market value of securities sold under repurchase agreements and releases the guarantees to the counterparties where appropriate.

3.19 Employee benefits

Severance liabilities

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

Retirement plan

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

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

These funds are administered through an external fund's manager, as required by Law 1 dated January 3, 1984 amended by the Executive Decree No.16 of October 13, 1984 and No.53 of December 30, 1985.

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3.20 Share-based payments

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

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

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

3.21 Income tax

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

Deferred tax

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

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

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Complementary dividend tax

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

3.22 Insurance operations

First time adoption of IFRS

Based on Law 12 of April 3, 2012 of the Superintendence of Insurances and Reinsurances, the financial statements of Aseguradora Global, S.A. have been prepared in conformity with IFRS 1 (First Time Adoption). At the transition date, (July 1st. 2012), the exemptions and exceptions to the application of others IFRS were not considered as the events or transactions that arising them are not present in the financial statements of the subsidiary.

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

At the date of the consolidated financial statements, the outstanding claims of settlement are comprised of all incurred but not disbursed claims reported or not reported and related internal and external claims management expenses.

The broker fees and premiums taxes paid are deferred in the statement of consolidated financial position as deferred acquisition costs according to related unearned premiums net of reinsurers' participation.

Premiums earned from collective life insurance policies over a year are deferred in the statement of financial position as liabilities based on their duration. The amount attributable to current year is recognized as income as subscribed premiums on each anniversary date and the remaining amount over future periods is deferred as liabilities.

3.23 Trust operations

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

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3.24 *Embedded derivatives*

Derivatives may be embedded in other contractual arrangements, such as securities available-for-sale and held to maturity (the host contract) when their economic characteristics and risks are not closely related to the host contract and the host contract is not carried at fair value through profit and loss. These embedded derivatives are accounted for separately at fair value and changes in fair value are recognized in the consolidated statement of profit or loss.

These embedded derivatives are presented in the consolidated statement of financial position together with the host contract.

3.25 *Hedging derivatives*

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

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

- (a) Hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges);
- (b) Hedges of highly probable future cash flows attributable to a recognized asset or liability or a forecasted transaction (cash flow hedges).

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

Fair value hedge

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

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

Cash flows hedge

Derivative instruments under cash flow method are hedging risks caused by fluctuations in cash flows that are attributable to a particular risk of an asset or liability recognized in the consolidated statement of financial position and affecting the bottom line. Changes in the valuation of hedging under the cash flow method for the effective portion is recorded to equity and the ineffective portion are recognized in the consolidated profit or loss.

Amounts accumulated in equity are recycled to the consolidated statement of profit or loss in the years when the hedged item affects profit or loss. They are recorded in the revenue or expense lines in which associated with the related hedged item is reported.

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

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

The fair values of derivatives used for hedging purposes are described in Note 21.

3.26 Fair value measurement

In estimating the fair value of assets and liabilities, the Bank uses observable-market data to the extent it is available. When Level 1 data is not available, the Bank engages third party qualified external valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Administration reports to the Board of Director the most significant fluctuations in the fair value of the assets and liabilities. Information of the valuation techniques and inputs used in determining the fair value of various assets and liabilities. (See Note 5).

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The transfers between levels of hierarchy of fair value are disclosed at the end of the period when the change occurred.

3.27 Cash equivalents

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

4. Financial risk administration

4.1 Objectives of financial risk management

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

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

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

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

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

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

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

4.2 *Credit risk*

Credit risk is the risk of a financial loss for the Bank that may take place if a client or a counterparty of a financial instrument fails to meet their contractual obligations arising mainly on loans to clients and investment 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 periodically monitor the financial condition of the debtors and issuers of negotiable instruments that involve a credit risk for the Bank.

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

Issuance of Credit Policies:

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

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

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

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Establishment of Authorization Limits:

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

Exposure Limits:

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

Concentration Limits:

To limit concentration per activity or industry, exposure limits have been approved based on capital distribution and the strategic orientation set for the loan portfolio.

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

Counterparty Maximum Limits:

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

Review of Compliance Policies:

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

Impairment and provisioning policies:

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

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The following detail analyzes the investment portfolio of the Bank that is exposed to credit risk and its assessment based on its rating grade:

| 2014 | Securities available for sale | Securities purchased under resale agreements | Total |
|---------------------|-------------------------------------|---|--------------------|
| Investment grade | 160,846,379 | - | 160,846,379 |
| Standard monitoring | 54,208,263 | - | 54,208,263 |
| Ungraded | <u>190,670,049</u> | <u>3,000,011</u> | <u>193,670,060</u> |
| Total | <u>405,724,691</u> | <u>3,000,011</u> | <u>408,724,702</u> |

| 2013 | Securities available for sale | Securities purchased under resale agreements | Total |
|---------------------|-------------------------------------|---|--------------------|
| Investment grade | 166,651,138 | - | 166,651,138 |
| Standard monitoring | 14,311,110 | - | 14,311,110 |
| Ungraded | <u>90,631,281</u> | <u>5,497,680</u> | <u>96,128,961</u> |
| Total | <u>271,593,529</u> | <u>5,497,680</u> | <u>277,091,209</u> |

In the preceding table, the factors of major risk exposure of the investment portfolio have been detailed.

To manage the financial risk exposures of the investment portfolio, the Bank uses the assessment of the external rating agencies, as detailed as follows:

| <u>Description of the grade</u> | <u>External qualification</u> |
|---------------------------------|--|
| Investment grade | AAA, AA+, AA-, A+, A-, BBB+, BBB, BBB- |
| Standard monitoring | BB+, BB, BB-, B+, B, B- |
| Special monitoring | CCC to C |
| Ungraded | - |

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The following table analyzes the loan portfolio of the Bank that is exposed to credit risk and its corresponding evaluations:

| 2014 | Consumer | | | Corporate | | | Total loans |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|----------------------|--------------------|----------------------|
| | Individuals | Credit cards | Vehicles | Mortgage | Commercial | Overdrafts | |
| Individual impairment: | | | | | | | |
| Special mention | 9,696,326 | 1,560,602 | 4,455,603 | 18,890,834 | 30,197,283 | 356,716 | 65,157,364 |
| Subnormal | 1,503,761 | 75,337 | 1,303,723 | 299,435 | 18,189,756 | 191,830 | 21,563,842 |
| Doubtful | 5,007,852 | 1,763,111 | 613,299 | 3,220,691 | 10,633,406 | 567,817 | 21,806,176 |
| Uncollectible | <u>755,314</u> | <u>319,447</u> | <u>336,487</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,411,248</u> |
| Gross amount | 16,963,253 | 3,718,497 | 6,709,112 | 22,410,960 | 59,020,445 | 1,116,363 | 109,938,630 |
| Impairment allowance | <u>(3,349,634)</u> | <u>(1,243,518)</u> | <u>(927,807)</u> | <u>(352,013)</u> | <u>(7,247,383)</u> | <u>(36,144)</u> | <u>(13,156,499)</u> |
| Carrying value | <u>13,613,619</u> | <u>2,474,979</u> | <u>5,781,305</u> | <u>22,058,947</u> | <u>51,773,062</u> | <u>1,080,219</u> | <u>96,782,131</u> |
| Not delinquent without impairment | <u>420,198,760</u> | <u>41,337,684</u> | <u>147,931,009</u> | <u>531,234,327</u> | <u>2,165,414,034</u> | <u>118,601,110</u> | <u>3,424,716,924</u> |
| | <u>433,812,379</u> | <u>43,812,663</u> | <u>153,712,314</u> | <u>553,293,274</u> | <u>2,217,187,096</u> | <u>119,681,329</u> | <u>3,521,499,055</u> |
| Less: | | | | | | | |
| Global allowance | | | | | | | (20,039,920) |
| Generic allowance | | | | | | | (12,981,728) |
| Unearned interest and commissions | | | | | | | (10,553,676) |
| Total carrying amount | | | | | | | <u>3,477,923,731</u> |
| Guarantees | <u>137,613,106</u> | <u>4,306,042</u> | <u>251,030,611</u> | <u>789,484,372</u> | <u>3,318,783,713</u> | <u>145,124,997</u> | <u>4,646,342,841</u> |
| Renegotiated | <u>5,403,266</u> | <u>-</u> | <u>145,140</u> | <u>6,220,077</u> | <u>8,484,016</u> | <u>-</u> | <u>20,252,499</u> |
| 2013 | Consumer | | | Corporate | | | Total loans |
| | Individuals | Credit cards | Vehicles | Mortgage | Commercial | Overdrafts | |
| Individual impairment: | | | | | | | |
| Special mention | 8,277,009 | 905,401 | 4,349,178 | 13,184,954 | 27,283,680 | 982,623 | 54,982,845 |
| Subnormal | 1,155,109 | 41,924 | 1,231,176 | 465,914 | 21,031,546 | 522,202 | 24,447,871 |
| Doubtful | 4,780,740 | 1,130,874 | 653,870 | 2,430,625 | 9,973,630 | 666,533 | 19,636,272 |
| Uncollectible | <u>423,246</u> | <u>239,592</u> | <u>219,531</u> | <u>-</u> | <u>24,104</u> | <u>43,624</u> | <u>950,097</u> |
| Gross amount | 14,636,104 | 2,317,791 | 6,453,755 | 16,081,493 | 58,312,960 | 2,214,982 | 100,017,085 |
| Impairment allowance | <u>(2,969,795)</u> | <u>(829,428)</u> | <u>(818,126)</u> | <u>(289,654)</u> | <u>(7,756,281)</u> | <u>(70,385)</u> | <u>(12,733,669)</u> |
| Carrying value | <u>11,666,309</u> | <u>1,488,363</u> | <u>5,635,629</u> | <u>15,791,839</u> | <u>50,556,679</u> | <u>2,144,597</u> | <u>87,283,416</u> |
| Not delinquent without impairment | <u>370,207,249</u> | <u>28,286,226</u> | <u>133,075,813</u> | <u>403,198,223</u> | <u>1,826,215,067</u> | <u>99,812,401</u> | <u>2,860,794,979</u> |
| | <u>381,873,558</u> | <u>29,774,589</u> | <u>138,711,442</u> | <u>418,990,062</u> | <u>1,876,771,746</u> | <u>101,956,998</u> | <u>2,948,078,395</u> |
| Less: | | | | | | | |
| Global allowance | | | | | | | (14,755,773) |
| Generic allowance | | | | | | | (14,219,058) |
| Unearned interest and commissions | | | | | | | (16,335,857) |
| Total carrying amount | | | | | | | <u>2,902,767,707</u> |
| Guarantees | <u>115,319,819</u> | <u>4,370,681</u> | <u>202,957,078</u> | <u>602,623,600</u> | <u>2,238,868,192</u> | <u>116,526,898</u> | <u>3,280,666,268</u> |
| Renegotiated | <u>5,101,085</u> | <u>-</u> | <u>137,694</u> | <u>3,511,549</u> | <u>8,110,131</u> | <u>-</u> | <u>16,860,459</u> |

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In the previous table, the major risk exposure factors and information of impaired assets have been detailed, and the assumptions used for such disclosures are as follows:

- *Impairment on loans* - The impairment on loans is determined considering the principal and interests, based on contractual terms.
- *Renegotiated loans* - Renegotiated loans are those that have been restructured due to impairment in the financial condition of the debtor and when the Bank considers granting change in the original credit terms. These loans once restructured are kept in this category regardless of any improvement in the financial condition of the debtor after restructuration by the Bank.
- *Allowance for impairment losses* - Under Agreement 6-2000, allowance for impairment losses have been recorded, which represents an estimated of the expected losses in the loan portfolio. The main components of the allowance are related to individual risks and the allowance for loan losses collectively established. A financial asset is derecognized only when the contractual rights to the cash flows from the financial asset expire and the Bank transfers substantially the risks and rewards of the assets.
- *Write-off policy* - Loans are charged to losses when they are determined uncollectible. This determination is taken after considering into account factors as: debtor's ability to pay; when the guarantee is insufficient or not properly constituted or when exhausted all the resources for the recovery of the credit in the management of collections.

The Bank holds collaterals of loans from customers such as mortgages and other guarantees. The fair value estimates are based on the value of the collateral according to the loan period and are generally not updated unless the credit is deteriorating on an individual basis. Generally, the collateral is not linked to loans made, except when the investments held are part of a security purchased under resale agreements and securities under repurchase agreements are also considered on investments.

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The following schedule shows an analysis of the gross and net amount of allowances for impairment of the loan portfolio due to risk assessment:

| | 2014 | Carrying value | Allowances | Net amount |
|---|-------------|-----------------------|-------------------|----------------------|
| Normal | | 3,424,716,924 | - | 3,424,716,924 |
| Special mention | | 65,157,364 | 3,041,831 | 62,115,533 |
| Subnormal | | 21,563,842 | 3,762,498 | 17,801,344 |
| Doubtful | | 21,806,176 | 4,940,922 | 16,865,254 |
| Uncollectible | | <u>1,411,248</u> | <u>1,411,248</u> | - |
| | | 3,534,655,554 | 13,156,499 | 3,521,499,055 |
| Less: | | | | |
| Global allowance | | - | 20,039,920 | (20,039,920) |
| Generic allowance | | <u>-</u> | <u>12,981,728</u> | <u>(12,981,728)</u> |
| | | <u>3,534,655,554</u> | <u>46,178,147</u> | <u>3,488,477,407</u> |
| Less: unearned interest and commissions | | | | <u>(10,553,676)</u> |
| Total | | | | <u>3,477,923,731</u> |
| | 2013 | Carrying value | Allowances | Net amount |
| Normal | | 2,860,794,979 | - | 2,860,794,979 |
| Special mention | | 54,982,845 | 3,620,295 | 51,362,550 |
| Subnormal | | 24,447,871 | 3,677,944 | 20,769,927 |
| Doubtful | | 19,636,272 | 4,485,333 | 15,150,939 |
| Uncollectible | | <u>950,097</u> | <u>950,097</u> | - |
| | | 2,960,812,064 | 12,733,669 | 2,948,078,395 |
| Less: | | | | |
| Global allowance | | - | 14,755,773 | (14,755,773) |
| Generic allowance | | <u>-</u> | <u>14,219,058</u> | <u>(14,219,058)</u> |
| | | <u>2,960,812,064</u> | <u>41,708,500</u> | <u>2,919,103,564</u> |
| Less: unearned interest and commissions | | | | <u>(16,335,857)</u> |
| Total | | | | <u>2,902,767,707</u> |

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The estimated fair value of guarantees is as follows:

| | 2014 | 2013 |
|--------------------------|--------------------------|--------------------------|
| Fixed assets | 613,260,663 | 405,016,723 |
| Real estate | 3,565,954,554 | 2,508,579,321 |
| Deposits at the samebank | 238,764,262 | 233,016,286 |
| Investments securities | 113,748,202 | 93,504,265 |
| Agricultural | 45,555,173 | 10,651,711 |
| Trusts | 24,920,895 | 13,024,613 |
| Others | <u>44,139,092</u> | <u>16,873,349</u> |
| Total | <u>4,646,342,841</u> | <u>3,280,666,268</u> |

Restructured loans:

Restructuring activities include payment, arrangements approved external management plans and the repayment plan modified. The restructuring policies and practices are based on indicators or a criterion that, according to management's judgements, indicates that repayment will probably continue. These policies are under constant review.

As of June 30, 2014 and 2013 restructured loans that would otherwise be past due or impaired, amount to B/.20,252,499 and B/.16,860,459, respectively.

| | 2014 | 2013 |
|-------------------|-----------------------|-----------------------|
| <i>Consumer:</i> | | |
| Individual | 5,548,406 | 5,238,779 |
| Mortgage | 6,220,077 | 3,511,549 |
| <i>Corporate:</i> | | |
| Commercial | <u>8,484,016</u> | <u>8,110,131</u> |
| Total | <u>20,252,499</u> | <u>16,860,459</u> |

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The Bank monitors the credit risk concentration by sector and geographic location. The analysis of the credit risk concentration at the date of the consolidated statement of financial position is the following:

| | Loans | | Investments | |
|-------------------------------------|----------------------|----------------------|--------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Concentration by sector: | | | | |
| Corporate | 2,344,256,446 | 1,926,993,495 | - | - |
| Consumer | 1,184,746,278 | 970,119,423 | - | - |
| Investment securities | - | - | 405,724,691 | 271,593,529 |
| Others | 5,652,830 | 63,699,146 | 3,000,011 | 5,497,680 |
| | <u>3,534,655,554</u> | <u>2,960,812,064</u> | <u>408,724,702</u> | <u>277,091,209</u> |
| Geographical concentration: | | | | |
| Panama | 3,241,389,304 | 2,747,447,890 | 193,323,853 | 108,245,531 |
| Latin America and Caribbean | 293,266,250 | 213,364,174 | 153,182,569 | 97,377,582 |
| Europa, Asia y Oceania | - | - | 33,546,317 | 36,459,442 |
| United States of America and others | - | - | 28,671,963 | 35,008,654 |
| | <u>3,534,655,554</u> | <u>2,960,812,064</u> | <u>408,724,702</u> | <u>277,091,209</u> |

Concentration by sector, items from other loans comprised to credit facilities to banks, cooperatives, insurance companies, financial companies, government, international agencies and non for profit organization.

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

4.3 *Liquidity or financing risk*

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

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

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The Panamanian Banking Regulation requires that the banks maintain a general license at all times with a minimum balance of liquid assets, as defined in Agreement 4-2008 of the Superintendency of Banks of Panama, no less than 30% of their deposits, but due to the severe liquidity policies to cover their operating liabilities, the liquidity of the Bank based on this standard was 39.60% as of June 30, 2014, and 49.13% as of June 30, 2013.

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

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

| | 2014 | 2013 |
|------------------------|---------------|---------------|
| At closing | 39.60% | 49.13% |
| Average for the period | 39.12% | 43.76% |
| Maximum for the period | 45.04% | 49.19% |
| Minimum for the period | 32.95% | 38.22% |

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The following table shows the undiscounted cash flows of the financial liabilities of the Bank and the loan commitments and other liabilities based on the remaining contractual maturity. The expected flows of these instruments may vary significantly as a result of this analysis:

| 2014 | <u>Carrying value</u> | <u>Undiscounted cash flows</u> | <u>Up to 1 year</u> | <u>From 1 to 3 years</u> | <u>From 3 to 5 years</u> | <u>More than 5 years</u> |
|-------------------------|-----------------------|--------------------------------|----------------------|--------------------------|--------------------------|--------------------------|
| Deposits | 2,874,327,487 | 2,888,022,385 | 2,044,764,689 | 573,495,030 | 220,195,912 | 49,566,754 |
| Repurchase agreements | 635,850 | 635,876 | 635,876 | - | - | - |
| Borrowed funds | 452,263,488 | 464,054,367 | 281,766,038 | 166,138,286 | 16,150,043 | - |
| Commercial papers | 59,871,000 | 61,027,722 | 61,027,722 | - | - | - |
| Corporate bonds payable | 516,040,634 | 606,438,278 | 34,222,221 | 57,304,859 | 514,911,198 | - |
| Convertible bonds | 10,000,000 | 10,250,000 | 10,250,000 | - | - | - |
| Subordinated bonds | 89,522,558 | 430,810,883 | 6,069,342 | 12,138,684 | 12,138,684 | 400,464,173 |
| | <u>4,002,661,017</u> | <u>4,461,239,511</u> | <u>2,438,735,888</u> | <u>809,076,859</u> | <u>763,395,837</u> | <u>450,030,927</u> |
| 2013 | <u>Carrying value</u> | <u>Undiscounted cash flows</u> | <u>Up to 1 year</u> | <u>From 1 to 3 years</u> | <u>From 3 to 5 years</u> | <u>More than 5 years</u> |
| Deposits | 2,634,887,553 | 2,808,197,327 | 1,981,863,507 | 510,431,796 | 252,097,779 | 63,804,245 |
| Borrowed funds | 290,113,306 | 336,771,849 | 204,961,819 | 77,251,697 | 20,841,798 | 33,716,535 |
| Commercial papers | 59,074,000 | 59,900,195 | 59,900,195 | - | - | - |
| Corporate bonds payable | 325,103,129 | 410,338,395 | 19,635,853 | 42,451,705 | 296,417,504 | 51,833,333 |
| Convertible bonds | 10,000,000 | 10,750,000 | 500,000 | 10,250,000 | - | - |
| Subordinated bonds | 90,020,000 | 437,384,675 | 6,076,350 | 12,152,700 | 12,152,700 | 407,002,925 |
| | <u>3,409,197,988</u> | <u>4,063,342,441</u> | <u>2,272,937,724</u> | <u>652,537,898</u> | <u>581,509,781</u> | <u>556,357,038</u> |

To manage liquidity risk arising from financial liabilities, the Bank maintains effective liquid assets such as: cash and equivalents and investments with investment grade for which there is an active market. 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 enable the nature and extent of liquidity risk.

4.4 Market risk

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

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

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

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

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

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

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

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

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

| 2014 | 6 months to 1 year | | More than 5 years | | No interest rate | | Total |
|-----------------------------------|--------------------|--------------------|-------------------|-------------------|------------------|---------------|-------|
| | Up to 6 months | year | 1 to 5 years | years | rate | | |
| Financial assets: | | | | | | | |
| Cash and deposits | 245,373,495 | 10,174,000 | - | - | 169,049,659 | 424,597,154 | |
| Securities under resale agreement | 1,000,005 | 2,000,006 | - | - | - | 3,000,011 | |
| Securities available for sale | 49,930,766 | 11,316,793 | 86,893,631 | 242,186,668 | 15,396,833 | 405,724,691 | |
| Loans | 2,992,998,165 | 13,044,872 | 113,342,704 | 415,269,813 | - | 3,534,655,554 | |
| Total financial assets | 3,289,302,431 | 36,535,671 | 200,236,335 | 657,456,481 | 184,446,492 | 4,367,977,410 | |
| Financial liabilities: | | | | | | | |
| Customers deposits | 1,158,676,092 | 417,671,541 | 788,593,115 | 47,618,865 | 461,767,874 | 2,874,327,487 | |
| Repurchase agreements | 635,850 | - | - | - | - | 635,850 | |
| Borrowed funds | 452,263,488 | - | - | - | - | 452,263,488 | |
| Commercial papers | 20,000,000 | 39,871,000 | - | - | - | 59,871,000 | |
| Corporate bonds | 373,430,618 | 10,000,000 | 132,610,016 | - | - | 516,040,634 | |
| Convertible bonds | 10,000,000 | - | - | - | - | 10,000,000 | |
| Subordinated bonds | - | - | - | 89,522,558 | - | 89,522,558 | |
| Total financial liabilities | 2,015,006,048 | 467,542,541 | 921,203,131 | 137,141,423 | 461,767,874 | 4,002,661,017 | |
| Commitments and contingencies | - | - | - | - | 821,848,556 | 821,848,556 | |
| Total interest rate sensitivity | 1,274,296,383 | (431,006,870) | (720,966,796) | 520,315,058 | (277,321,382) | 365,316,393 | |
| 2013 | Up to 6 months | 6 months to 1 year | 1 to 5 years | More than 5 years | No interest rate | | Total |
| Financial assets: | | | | | | | |
| Cash and deposits | 377,348,270 | 2,180,000 | - | - | 108,811,793 | 488,340,063 | |
| Securities under resale agreement | 3,483,174 | 2,014,506 | - | - | - | 5,497,680 | |
| Securities available for sale | 17,812,892 | - | 79,968,714 | 156,691,205 | 17,120,718 | 271,593,529 | |
| Loans | 2,468,481,978 | 7,353,107 | 100,780,121 | 384,196,858 | - | 2,960,812,064 | |
| Total financial assets | 2,867,126,314 | 11,547,613 | 180,748,835 | 540,888,063 | 125,932,511 | 3,726,243,336 | |
| Financial liabilities: | | | | | | | |
| Customers deposits | 1,138,086,698 | 381,943,328 | 683,097,577 | 42,464,114 | 389,295,836 | 2,634,887,553 | |
| Borrowed funds | 290,113,306 | - | - | - | - | 290,113,306 | |
| Commercial papers | 34,691,000 | 24,383,000 | - | - | - | 59,074,000 | |
| Corporate bonds | 189,664,129 | 3,000,000 | 82,439,000 | 50,000,000 | - | 325,103,129 | |
| Convertible bonds | - | - | 10,000,000 | - | - | 10,000,000 | |
| Subordinated bonds | - | - | - | 90,020,000 | - | 90,020,000 | |
| Total financial liabilities | 1,652,555,133 | 409,326,328 | 775,536,577 | 182,484,114 | 389,295,836 | 3,409,197,988 | |
| Commitments and contingencies | - | - | - | - | 755,649,182 | 755,649,182 | |
| Total interest rate sensitivity | 1,214,571,181 | (397,778,715) | (594,787,742) | 358,403,949 | (263,363,325) | 317,045,348 | |

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

The analysis on a monthly basis by management is to determine the net impact on the financial instruments subject to market risk, taking into account the specific effects caused by increases and decreases of 100 basis points in interest rates. The results of these simulations are presented monthly in the asset liability committee (ALCO) to determine if the financial instruments of the Bank's portfolio are within acceptable risk parameters by management.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

| | 2014 | Increase 100pbs | Decrease 100pbs |
|------------------------------------|-------------|----------------------------|----------------------------|
| Investment securities | | (18,646,061) | 19,989,311 |
| Loans | | (10,788,549) | 11,486,249 |
| Time deposits | | 25,521,923 | (26,371,902) |
| Borrowed funds | | 3,623,351 | (3,723,373) |
| Commercial papers | | 344,782 | (338,811) |
| Corporate bonds | | 5,167,221 | (5,364,815) |
| Convertible and subordinated bonds | | <u>11,456,969</u> | <u>(15,006,962)</u> |
| Net impact | | <u>16,679,636</u> | <u>(19,330,303)</u> |

| | 2013 | Increase 100pbs | Decrease 100pbs |
|------------------------------------|-------------|----------------------------|----------------------------|
| Investment securities | | (12,154,726) | 13,021,177 |
| Loans | | (6,388,920) | 6,781,028 |
| Time deposits | | 22,873,568 | (23,615,690) |
| Borrowed funds | | 2,576,121 | (2,661,306) |
| Commercial papers | | 241,417 | (233,631) |
| Corporate bonds | | 5,449,878 | (5,717,120) |
| Convertible and subordinated bonds | | <u>11,625,633</u> | <u>(15,220,879)</u> |
| Net impact | | <u>24,222,971</u> | <u>(27,646,421)</u> |

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4.5 *Operational risk*

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

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

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

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

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

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

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

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

4.6 *Capital management*

The Bank manages its capital to ensure:

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

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

The adequacy of capital and the use of regulatory capital are monitored by the Bank's management based on guidelines and techniques developed by the Superintendency of Bank of Panama. The information requirements are sent to the regulator on a quarterly basis.

The Bank reviews its regulatory capital by applying the Superintendency of Banks of Panama standards, as per Agreements 5-2008 of October 1, 2008, modified with Agreement 4-2009 of June 9, 2009, where are established capital rules for credit risk.

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

Based on regulatory scheme, paid-in capital requirements are measured as follows:

- *Primary capital* - Includes paid-in capital, declared reserves and retained earnings. Paid-in capital is represented by common and non-accumulative preferred stocks issued and fully paid. Declared reserves are those identified as such by the Bank arising from accumulated earnings maintained to reinforce its financial situation.
- Retained earnings are undistributed earnings in the fiscal period and accumulated from prior periods.

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- *Secondary capital* - Includes hybrid capital and debt instruments, subordinated debt, general allowances for losses, undeclared reserves and asset revaluation reserves. The generic reserves are those provisions created on a temporary basis to cover the impairment risk that cannot be identified to any loan, specific undeclared reserves, are appropriated from earnings and are available to cover future unanticipated losses and do not have any liens or encumbrances. Revaluations reserves arisen from the assets revaluation. As of June 30, 2014 the Bank does not have recorded any undeclared reserves or non-revaluation reserve.

Banks with General License must calculate on a quarterly basis its capital adequacy by taking into account the following deductions:

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

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The Bank maintains a regulatory capital position comprised as follows:

| | 2014 | 2013 |
|---|----------------------|----------------------|
| Primary capital (Tier 1) | | |
| Common shares | 79,184,413 | 78,202,657 |
| Retained earnings | 237,559,403 | 187,236,086 |
| Less: goodwill | (8,355,187) | (8,355,187) |
| Capital reserve | 35,871,010 | 29,553,472 |
| Total | <u>344,259,639</u> | <u>286,637,028</u> |
| Secondary capital (Tier 2) | | |
| Subordinated debt convertible into common | 10,000,000 | 10,000,000 |
| Subordinated debt | 89,522,558 | 90,020,000 |
| Undeclared reserves | 2,260 | 8,583 |
| Generic reserves for loan | 12,981,728 | 14,219,058 |
| Totals | <u>112,506,546</u> | <u>114,247,641</u> |
| Total regulatory capital | <u>456,766,185</u> | <u>400,884,669</u> |
| Risk weighted assets | | |
| Cash and due from banks | 51,109,499 | 75,905,654 |
| Investments securities | 256,829,748 | 142,324,885 |
| Loans | 2,689,242,460 | 2,267,766,040 |
| Property, furniture, equipment and improvements | 55,893,752 | 48,736,297 |
| Other assets | 113,734,295 | 97,427,155 |
| Off - balance sheet items | 116,987,039 | 105,383,715 |
| Allowance for possible loan losses | (33,196,419) | (27,489,442) |
| Total risk weighted assets | <u>3,250,600,374</u> | <u>2,710,054,304</u> |
| Capital adequacy | | |
| Total regulatory capital over risk weighted | <u>14.05%</u> | <u>14.79%</u> |
| Total Tier 1 over risk weighted assets | <u>10.59%</u> | <u>10.58%</u> |

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5. Accounting estimates and critical judgments

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

- (a) *Impairment losses on loans* - The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.
- (b) *Impairment of investments available-for-sale* - The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in stock price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.
- (c) *Fair value of financial instruments* - The Bank measures the fair value using hierarchy levels that reflect the meaning of data input used in the measures. In order to determine the fair value, the Bank has constituted a documented process and policies which has set the responsibilities and the segregation of duties among the different responsible areas that are involved in this process which has been approved by the Assets and Liabilities Committee, Risk Committee, and the Board of Directors.

When the Company contracts third parties as price vendors to determine the fair value of the instruments, this control unit assesses and obtains from the price vendors the documentation that supports their conclusion that such valuations meet the IFRS requirements. This assessment includes:

- Verifying that the price vendors have been approved by the Bank;
- Obtain an understanding of how the fair value was determined and if it reflects current market transactions;

When the fair value was determined using similar instruments, the features used to adjust these prices.

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IFRS 13 set a hierarchy level of the valuation techniques based on the information included in the valuation techniques is observable or unobservable. The observable information reflects market data from independent sources; the unobservable input reflects Bank's market assumptions. These two types of information have set the following fair value hierarchy:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices of identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

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| <u>Financial assets / liabilities</u> | <u>Fair value as of</u> | <u>Fair value hierarchy</u> | <u>Valuations technique(s) and key inputs</u> | <u>Significant unobservable inputs(s)</u> | <u>Relationship of unobservable inputs to fair value</u> |
|--|-------------------------|-----------------------------|---|--|--|
| | <u>2014</u> | <u>2013</u> | | | |
| Private equity securities - local | 8,928,094 | 12,753,816 | Level 2 | Quoted prices in an active market. | N/A |
| Private equity securities - foreign | 2,020,000 | 1,916,800 | Level 1 | Quoted prices in an active market. | N/A |
| Private debt securities - local | 79,945,402 | 15,480,063 | Level 2 | Quoted prices in markets that are not active. | N/A |
| Private debt securities - local | 71,826,532 | 57,594,538 | Level 3 | Quoted prices in markets that are not active. | Calibration prices and calibration dates. |
| Private debt securities - foreign | 187,899,336 | 148,823,528 | Level 1 | Quoted prices in an active market. | N/A |
| Private debt securities - foreign | 25,481,513 | 25,128,846 | Level 2 | Forward curve rates based on Libor, and the default risk for the underlying risks are based on CDS quotes. | N/A |
| Government debt securities - local | 2,487,407 | 5,134,373 | Level 1 | Quoted prices in an active market. | N/A |
| Unquoted private equity securities - local | 2,214,420 | 2,214,420 | Level 3 | Share value adjust by the fair value of issuer's properties. | Growth in issuer's net assets. |
| Unquoted private debt securities - local | 23,600,144 | 1,231,447 | Level 3 | Discounted cash flow. Future cash flows are based on forward swap rates at the end of the reporting period discounted at a rate that reflects the credit risk of the counterparties | The discount rate is the issuer's loans weighted average disbursed three months before year ended. |
| Interest rate swaps - cash flows edge | (49,892) | (100,816) | Level 2 | Discounted cash flow that reflects the number of days by the related variable rate, vs the future cash flows that reflect the fixed rate at the end of the reporting period. | N/A |
| Interest rate swaps - fair value hedge | 448,251 (2,991,194) | - (3,887,121) | Level 2 | Discounted cash flow. Future cash flows are based on forward swap rates at the end of the reporting period discounted at a rate that reflects the credit risk of the counterparties. | N/A |
| Cross currency swaps - fair value hedge | 410,919 | - | Level 2 | Discounted cash flow. Future cash flows are based on forward swap rates at the end of the reporting period discounted at a rate that reflects the credit risk of the counterparties. | N/A |
| Bonds payable | 373,430,618 | 189,664,129 | Level 2 | Fair value is determined in relation to the hedging instruments to the hedge risk. | N/A |
| Totals | 775,651,550 | 455,954,023 | | | |

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The Bank believes that its valuation methodologies of the investments categorized as Level 3 are appropriate, nevertheless, the use of different estimates of the unobservable inputs, may give different fair value of such investments. For investments classified as Level 3 adjustments to the credit spread for fixed rate instruments (+ 100 bps - 100 bps), would result in the following favorable and unfavorable impacts on the Bank's equity.

2014

| | Available for sale | <u>effect on equity</u> |
|------------------|---------------------------|--------------------------------|
| | <u>Favorable</u> | <u>(Unfavorable)</u> |
| Debt instruments | 5,185,328 | (4,788,780) |

There were no transfers between Level 1 and 2 during the year ended June 30, 2014.

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Fair value of financial assets and liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The carrying amount of the principal assets and liabilities that are not measured at fair value in the Bank's consolidated statement of financial position is summarized below:

| | 2014 | |
|-----------------------------------|------------------------------|--------------------------|
| | <u>Carrying value</u> | <u>Fair value</u> |
| Assets | | |
| Cash and due from banks | 169,049,659 | 169,049,659 |
| Time deposits | 255,547,495 | 255,547,495 |
| Securities purchased under resale | 3,000,011 | 3,000,011 |
| Securities available for sale | 1,321,842 | 1,321,842 |
| Loans, net | <u>3,477,923,731</u> | <u>3,507,733,967</u> |
| Total financial assets | <u>3,906,842,738</u> | <u>3,936,652,974</u> |
| Liabilities | | |
| Due to customers - demand | 461,767,874 | 461,767,874 |
| Savings deposits | 588,245,419 | 588,245,419 |
| Due to customers - time deposits | 1,824,314,194 | 1,870,745,048 |
| Repurchase agreements | 635,850 | 635,850 |
| Borrowed funds | 452,263,488 | 451,471,598 |
| Commercial papers | 59,871,000 | 60,120,844 |
| Bonds payable | 142,610,016 | 142,996,840 |
| Convertible bonds | 10,000,000 | 10,000,000 |
| Subordinated bonds | <u>89,522,558</u> | <u>90,245,000</u> |
| Total financial liabilities | <u>3,629,230,399</u> | <u>3,676,228,473</u> |

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| | Fair value hierarchy | | | |
|---|-----------------------------|----------------|----------------------|----------------------|
| | 2014 | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Cash and due from bank | 169,049,659 | - | 169,049,659 | - |
| Time deposits | 255,547,495 | - | 255,547,495 | - |
| Securities purchased under resale agreement | 3,000,011 | - | 3,000,011 | - |
| Securities available for sale | 1,321,842 | - | - | 1,321,842 |
| Loans, net | <u>3,507,733,967</u> | - | - | <u>3,507,733,967</u> |
| Total financial assets | <u>3,936,652,974</u> | <u>-</u> | <u>427,597,165</u> | <u>3,509,055,809</u> |
| Liabilities | | | | |
| Demand - deposits | 461,767,874 | - | 461,767,874 | - |
| Saving - deposits | 588,245,419 | - | 588,245,419 | - |
| Time - deposit | 1,870,745,048 | - | 1,870,745,048 | - |
| Securities sold under repurchase agreements | 635,850 | - | 635,850 | - |
| Borrowed funds | 451,471,598 | - | 451,471,598 | - |
| Commercial papers | 60,120,844 | - | 60,120,844 | - |
| Bonds payable | 142,996,840 | - | 98,420,840 | 44,576,000 |
| Convertible bonds | 10,000,000 | - | - | 10,000,000 |
| Subordinated bonds | 90,245,000 | - | 90,245,000 | - |
| Total financial liabilities | <u>3,676,228,473</u> | <u>-</u> | <u>3,621,652,473</u> | <u>54,576,000</u> |

The fair values of the financial assets and liabilities included in the Level 2 and Level 3 above have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

Due to their short term nature, the fair value of interbank and customer deposits is estimated based on discounted cash flows applying rates offered for deposits with similar terms and maturities. Fair value for demand deposits is the amount payable at the date of the consolidated financial statements.

The movement of investment available-for-sale Level 3 is as follows:

| | 2014 | 2013 |
|-------------------------------------|--------------------|-------------------|
| Balance at beginning of the year | 62,356,102 | 3,783,946 |
| Additions | 22,138,603 | 35,736,392 |
| Reclassifications | - | 24,357,565 |
| Reclassifications from Level 2 to 3 | 17,396,640 | - |
| Net change in securities fair value | 2,508,665 | (1,494,214) |
| Redemptions and sales | <u>(5,437,072)</u> | <u>(27,587)</u> |
| | | |
| Balance at end of the year | <u>98,962,938</u> | <u>62,356,102</u> |

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As of June 30, 2014 and 2013 securities available-for-sale at Level 3 of B/.1,321,842 and B/.1,315,698, respectively, have been recorded at cost. Bank's management believes that the acquisition cost approximates to fair value. On the other hand, other investments at Level 3 of B/.97,641,096 as of June 30, 2014 and B/.61,040,404 as of June 30, 2013, are recorded at fair value.

As of June 30, 2014 and 2013, securities available for sale of Level 3 did not affect the Bank's profit or loss.

6. Mains laws and applicable regulations

6.1 Bank law

In the Republic of Panama, the banks are regulated by the Superintendency of Banks of Panama, through Executive Decree No. 52 of April 30, 2008, adopting its sole text from Decree Law 9 of February 26, 1998, amended by Decree Law No.2 of February 22, 2008, as well as by Resolutions and Agreements issued by this entity. Among the principal aspects of this law are the following: authorization of bank licenses, minimum requirements of capital and liquidity, consolidated supervision, procedures for management of credit and market risks, prevention of money laundering and procedures of bank intervention and liquidation and others. Also, the banks will be subject, at least, to an inspection every two (2) years performed by the auditors of the Superintendency of Banks of Panama to determine the fulfillment of the dispositions of Executive Decree No.52 of April 30, 2008, and Law No.42 of October 2, 2000 related to the prevention of money laundering.

Compliance with Superintendency of Banks of Panama

Liquidity Index

The liquidity index reported to the Regulatory Institution under the parameters of Agreement 4-2008, was 39.60% as of June 30, 2014 and 49.13% as of June, 30, 2013. (See Note 4.3).

Capital Adequacy Index

Under the Banking Law, the general license banks are subject to maintain a shares capital paid or an assigned capital of ten million of balboas (B/.10,000,000) and capital funds that cannot be less than eight percent (8%) of the total of its weighted assets and off-balance-sheet operations that represent an irrevocable contingency. The Bank has consolidated capital funds of approximately 14.05% as of June 30, 2014 and 4.79% as of June 30, 2013 over its risk based weighted assets under the Agreement 5-2008 of the Superintendency of Banks of Panama. (See Note 4.6).

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In conformity with the prudential standards issued by the Superintendency of Banks of Panama, the accounting treatment for recognition of losses on loans, investment securities and foreclosed properties in lieu of payment differs in some respects from the accounting treatment according to International Financial Reporting Standards, specifically IAS 39 and IFRS 5. The General License Banks are required to comply with the prudential standards as stipulated by the Superintendency of Banks of Panama. (See Note 3.1).

6.2 *Insurances and Reinsurances Law*

The operations of the insurance companies are regulated by the Superintendency of Insurances and Reinsurances of Panama, through the Insurance Act No.12 of April 3, 2012 and Reinsurance Act No.63 of September 19, 1996.

6.3 *Securities Exchange Law*

The operations of Global Valores, S.A. are regulated by the Superintendency of Securities Exchange of Panama in accordance with the laws established by Decree Law No.1 of July 8, 1999, besides, the operations of brokerage business, are regulated by the Agreement 4-2011 established by the Superintendency of Securities Exchange of Panama, that establishes the obligation to comply with the capital adequacy standards, solvency ratio, capital fund, liquidity index, concentration of credit risk and overheads. Additionally, as of September 18, 2013, the Superintendency of Securities Exchange of Panama, issued 8-2013 Agreement, whereby certain provisions of the Agreement 4-2011 dated 27 June 2011 such as: adequate capital on relationship solvency capital funds, liquidity ratio and risk concentration that brokerage house must be comply were amended.

6.4 *Trust Law*

Trust's operations are regulated by the Superintendency of Banks of Panama according to Act No.1 of January 5, 1984.

6.5 *Finance Lease Law*

The operations of finance lease are regulated by the Directorate of Financial Entities of Ministry of Commerce and Industries according to Act No.7 of July 10, 1990.

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7. Balances and transactions with related parties

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

| | 2014 | 2013 |
|--|-------------------|-------------------|
| <i>Operations with related companies</i> | | |
| Balance with related parties | | |
| <i>Assets</i> | | |
| Securities purchased under resale agreements | 3,000,011 | 3,000,014 |
| Loans | <u>73,535,312</u> | <u>38,833,919</u> |
| Accrued interest receivable | <u>171,985</u> | <u>135,286</u> |
| Other assets | <u>7,610,015</u> | <u>7,056,616</u> |
| <i>Liabilities</i> | | |
| Due to clients-demand | 19,239,981 | 15,175,794 |
| Due to clients-savings | <u>2,859,923</u> | <u>2,022,913</u> |
| Due to clients-time | <u>34,366,623</u> | <u>34,855,391</u> |
| Accrued interest payable | <u>113,407</u> | <u>121,301</u> |
| <i>Commitment and contingencies</i> | <u>12,109,000</u> | <u>12,168,000</u> |
| Transactions with related parties | | |
| <i>Income and expenses</i> | | |
| Interest income | <u>4,039,892</u> | <u>3,650,204</u> |
| Interest expense | <u>1,635,197</u> | <u>1,668,334</u> |

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| | 2014 | 2013 |
|---|------------|------------|
| <i>Operations with directors and key management</i> | | |
| Balance with related parties | | |
| <i>Assets</i> | | |
| Loans | 5,608,805 | 5,125,423 |
| Accrued interest receivable | 14,306 | 13,643 |
| <i>Liabilities</i> | | |
| Due to clients-demand | 4,168,915 | 4,331,747 |
| Due to clients-savings | 5,312,282 | 2,795,829 |
| Due to clients-time | 55,474,853 | 76,435,441 |
| Accrued interest payable | 175,151 | 227,091 |
| <i>Commitments and contingencies</i> | 1,518,000 | 1,385,000 |
| Transactions with related parties | | |
| <i>Income and expenses</i> | | |
| Interest income | 265,012 | 320,770 |
| Interest expense | 2,102,679 | 1,968,078 |
| <i>Key management employee benefits</i> | | |
| Salaries | 2,425,538 | 2,127,492 |
| Participation in net income | 1,172,750 | 1,053,390 |
| Share based payments | 981,756 | - |
| Director's fees | 282,000 | 289,000 |
| | 4,862,044 | 3,469,882 |

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For the periods ended June 30, 2014 and 2013, the collateral that guarantee loans to related parties amounted B/.146,146,225 and B/.66,060,666, respectively which corresponds to properties, securities and investments.

As of June 30, 2014 and 2013, there are no loans with impairment indicator. Loans to related parties have maturities from November 2014 to December 2044 and interest rates ranging from 3% to 12% as of June 30, 2014, and maturities between July 2017 to July 2043 and interest rates ranging from 6% to 12% as of June 30, 2013.

8. Cash and cash items

Cash and cash items are detailed below:

| | 2014 | 2013 |
|--|--------------------|---------------------|
| Cash and cash equivalents | 40,965,134 | 34,224,420 |
| Demand deposits | 128,084,525 | 74,587,373 |
| Time deposits | <u>255,547,495</u> | <u>379,528,270</u> |
| | 424,597,154 | 488,340,063 |
| Less: | | |
| Restricted time deposits | (4,051,515) | (4,503,333) |
| Term deposits with maturities over 90 days | <u>(9,199,000)</u> | <u>(10,379,000)</u> |
| Cash equivalents for cash flows purposes | <u>411,346,639</u> | <u>473,457,730</u> |

As of June 30, 2014 and 2013 there were time deposits with original maturity over 90 days for B/.9,199,000 and B/.10,379,000 respectively. In addition, there are restricted deposits for B/.4,051,515 and B/.4,503,333 to guarantee borrowed funds as of June 30, 2014 and 2013, respectively. See Note 15.

9. Securities purchased under resale agreements

As of June 30, 2014 securities purchased under resale agreement for B/.3,000,011 are secured by shares of local companies and private debt securities traded and expire in August 2014, April and September 2015.

As of June 30, 2013 securities purchased under resale agreement for B/.5,497,680 are secured by shares of local companies and private debt securities traded and expire in July-September 2013, January, February and April 2014.

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10. Securities available-for-sale

Securities available-for-sale are comprised by the following types of investments:

| | 2014 | 2013 |
|---|--------------------|--------------------|
| <u>Listed securities:</u> | | |
| Capital shared issued by companies-domestic | 8,928,094 | 12,753,816 |
| Capital shared issued by companies-foreign | 2,020,000 | 1,916,800 |
| Private debt securities-local | 151,771,935 | 73,074,601 |
| Private debt securities-foreign | 213,380,849 | 173,952,375 |
| Government debt securities-domestic | 2,487,407 | 5,134,373 |
| | <u>378,588,285</u> | <u>266,831,965</u> |
| <u>Unlisted securities:</u> | | |
| Capital shared issued by companies-domestic | 2,547,405 | 2,408,802 |
| Private debt securities-domestic | <u>24,589,001</u> | <u>2,352,762</u> |
| | <u>27,136,406</u> | <u>4,761,564</u> |
| | <u>405,724,691</u> | <u>271,593,529</u> |

The movement of securities available-for-sale is summarized as follows:

| | 2014 | 2013 |
|---|----------------------|----------------------|
| Balance at beginning of the year | 271,593,529 | 134,721,092 |
| Additions | 238,856,218 | 50,172,840 |
| Net realized gain transferred to income | 7,072,024 | 26,495,473 |
| Change in fair value, net | (3,042,541) | (15,341,185) |
| Reclassification | - | 282,414,785 |
| Sales and redemptions | <u>(108,754,539)</u> | <u>(206,869,476)</u> |
| Balance at end of the year | <u>405,724,691</u> | <u>271,593,529</u> |

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As of June 30, 2014 and 2013, the net loss on embedded derivatives in available for sale securities is B/.159,866 and B/.2,228,807 respectively.

As June 30, 2014 and 2013, there are investments available-for-sale for B/.122,685,475 and B/.79,803,508, respectively to guarantee borrowed funds. (See Note 15).

As June 30, 2014 and 2013, the sales and redemptions of investments was B/.108,754,539 and B/.206,869,476, respectively as result recorded a gain of B/.7,072,024 and B/.26,495,473, which are included in the consolidated statements of profit or loss for the years ended June 30, 2014 and 2013, respectively.

On the December 27, 2012, the Bank notified to the Superintendency of Banks of Panama, its decision to reclassify the entire portfolio of securities held to maturity category to the available for sale securities based on its strategy or business model. These reclassification of B/.282,414,785 was effective date December 31, 2012. At the date of the reclassification was recorded unrealized gain of B/.30,633,474 in other comprehensive income as result of fair value recognition.

As of June 30, 2014 and 2013, the amortized cost of securities held to maturity, reclassified to the securities available for sale is B/.112,284,982 and B/.167,315,313, respectively.

As of June 30, 2013, movements of securities held to maturity are summarized below:

| | |
|---|------------------------|
| Balance at beginning of the year | 264,310,692 |
| Additions | 25,095,502 |
| Reclassification of available for sale securities | (282,414,785) |
| Redemptions | <u>(6,991,409)</u> |
| Balance at end of the year | <u><u><u>-</u></u></u> |

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11. Loans

Loans per type are as follows:

| | 2014 | | 2013 | |
|-----------------------------------|----------------------|----------------------|-----------------------------------|----------------------|
| | <u>Gross amount</u> | <u>Net amount</u> | <u>Gross amount</u> | <u>Net amount</u> |
| <i>Domestic:</i> | | | | |
| Consumer | 590,058,293 | 584,537,335 | Consumer | 510,341,532 |
| Commercial | 809,804,552 | 807,061,853 | Commercial | 655,372,043 |
| Agricultural | 265,137,983 | 262,081,646 | Agricultural | 234,570,187 |
| Pledge | 128,110,488 | 128,110,488 | Pledge | 110,145,201 |
| Overdrafts | 109,234,982 | 109,198,838 | Overdrafts | 94,524,861 |
| Mortgage | 550,439,198 | 550,087,185 | Mortgage | 419,418,065 |
| Industrials | 126,393,891 | 126,393,891 | Industrials | 130,992,015 |
| Construction | 430,277,723 | 429,244,644 | Construction | 343,438,497 |
| Leasing | 48,927,986 | 48,922,633 | Leasing | 43,351,230 |
| Factoring | <u>183,004,208</u> | <u>182,594,292</u> | Factoring | <u>205,294,259</u> |
| Total domestic | <u>3,241,389,304</u> | <u>3,228,232,805</u> | Total domestic | <u>2,747,447,890</u> |
| <i>Foreign:</i> | | | | |
| Commercial | 155,579,164 | 155,579,164 | Commercial | 105,744,621 |
| Agricultural | 8,053,217 | 8,053,217 | Agricultural | 8,759,078 |
| Industrials | 70,127,850 | 70,127,850 | Industrials | 48,013,094 |
| Construction | 39,400,108 | 39,400,108 | Construction | 15,732,615 |
| Pledge | 12,550,022 | 12,550,022 | Pledge | 27,750,068 |
| Overdrafts | <u>7,555,889</u> | <u>7,555,889</u> | Overdrafts | <u>7,364,698</u> |
| Total foreign | <u>293,266,250</u> | <u>293,266,250</u> | Total foreign | <u>213,364,174</u> |
| | <u>3,534,655,554</u> | <u>3,521,499,055</u> | | <u>2,960,812,064</u> |
| Less: | | | Less: | |
| Global allowance | | (20,039,920) | Global allowance | (14,755,773) |
| Generic allowance | | (12,981,728) | Generic allowance | (14,219,058) |
| Unearned interest and commissions | | <u>(10,553,676)</u> | Unearned interest and commissions | <u>(16,335,857)</u> |
| Total loans, net | | <u>3,477,923,731</u> | Total loans, net | <u>2,902,767,707</u> |

As of June 30, 2014 and 2013, the principal balance of delinquent loans (from 31 to 90 days) was B/.25,086,147 and B/.21,866,206, respectively, and past due loans (more than 90 days) amounted to B/.26,824,454 and B/.23,248,659, as of June 30, 2014 and 2013, respectively.

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As of June 30, 2014 and 2013, there were restructured loans for B/.20,252,499 and B/.16,860,459, and non-accrual loans for B/.19,757,692 and B/.17,156,804, respectively. As of June 30, 2014 and 2013, gross income from interest that would have been recognized had the non-accrual loans had performed under its original terms would be B/.1,806,301 and B/.1,466,161, respectively.

The bond issued in October 2012, is guaranteed by an Irrevocable Guarantee Trust composed by residential mortgage loans pledged as collateral whose balance on June 30, 2014 and 2013 amounted to B/.409,170,415 and B/.296,215,461, respectively.

As of June 30, 2014 and 2013, the loans portfolio accrued interest rate from a range of 0.97% up to 24% and 0.24% up to 24%, respectively. The weighted average interest rate is 5.90% as of June 30, 2014 and 6.11% as of June 30, 2013.

The loan portfolio classified by type of interest is as follow:

| | 2014 | 2013 |
|--------------------------------|-----------------------------|-----------------------------|
| Fixed rate | 525,660,814 | 622,306,022 |
| Adjustable rate | 2,221,148,396 | 2,084,620,466 |
| Floating rate (Libor or Prime) | <u>787,846,344</u> | <u>253,885,576</u> |
| | <u><u>3,534,655,554</u></u> | <u><u>2,960,812,064</u></u> |

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

| | 2014 | 2013 |
|----------------------------------|--------------------------|--------------------------|
| Balance at beginning of the year | 41,708,500 | 38,996,226 |
| Provision charged to expenses | 8,000,004 | 8,499,996 |
| Recoveries | 1,076,874 | 997,854 |
| Written-off loans | <u>(4,607,231)</u> | <u>(6,785,576)</u> |
| Balance at the end of the year | <u><u>46,178,147</u></u> | <u><u>41,708,500</u></u> |

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Finance leases, net

The balance of finance leases, net and the maturity profile of minimum payments are summarized as follows:

| | 2014 | 2013 |
|------------------------------------|--------------------|--------------------|
| Minimum payments up to 1 year | 2,751,006 | 1,619,185 |
| Minimum payments from 1 to 5 years | <u>46,176,980</u> | <u>41,732,045</u> |
| Total minimum payments | 48,927,986 | 43,351,230 |
| Less: unearned interests | <u>(4,909,209)</u> | <u>(5,168,256)</u> |
| Total finance lease, net | <u>44,018,777</u> | <u>38,182,974</u> |

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12. Property, furniture, equipment and improvements

Property, furniture, equipment and improvement are summarized as follows:

| | 2014 | | | | | | | |
|--------------------------|-----------|------------|---------------|--------------------|-----------|------------------------|----------------------|-------------|
| | Furniture | | | | | | | |
| | Land | Property | and equipment | Computer equipment | Vehicles | Leasehold improvements | Projects in progress | Total |
| Cost: | | | | | | | | |
| At beginning of the year | 3,895,068 | 29,653,893 | 12,678,104 | 28,862,771 | 2,614,664 | 5,127,864 | 5,846,937 | 88,679,301 |
| Additions or purchase | 146,944 | 1,308,821 | 1,213,759 | 4,835,040 | 880,501 | 606,417 | 5,230,103 | 14,221,585 |
| Sales and disposals | - | - | (689,837) | (454,485) | (626,826) | (254,607) | - | (2,025,755) |
| At end of the year | 4,042,012 | 30,962,714 | 13,202,026 | 33,243,326 | 2,868,339 | 5,479,674 | 11,077,040 | 100,875,131 |

| | | | | | | | | |
|--------------------------------------|------------------|-------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
| Depreciation and amortization | | | | | | | | |
| At beginning of the year | - | 6,966,018 | 8,204,702 | 21,649,513 | 1,376,491 | 1,746,280 | - | 39,943,004 |
| Expense of the year | - | 1,163,718 | 1,177,379 | 3,498,469 | 584,260 | 343,519 | - | 6,767,345 |
| Sales and disposals | - | - | (586,568) | (454,043) | (618,132) | (70,226) | - | (1,728,969) |
| At end of the year | - | 8,129,736 | 8,795,513 | 24,693,939 | 1,342,619 | 2,019,573 | - | 44,981,380 |
| Net balances | 4,042,012 | 22,832,978 | 4,406,513 | 8,549,387 | 1,525,720 | 3,460,101 | 11,077,040 | 55,893,751 |

| | 2013 | | | | | | | |
|--------------------------|-----------|------------|---------------|--------------------|-----------|------------------------|----------------------|-------------|
| | Furniture | | | | | | | |
| | Land | Property | and equipment | Computer equipment | Vehicles | Leasehold improvements | Projects in progress | Total |
| Cost: | | | | | | | | |
| At beginning of the year | 1,517,140 | 29,215,346 | 12,230,440 | 25,994,300 | 2,436,216 | 5,056,411 | 923,776 | 77,373,629 |
| Additions or purchase | 2,377,928 | 870,423 | 1,175,658 | 3,188,407 | 550,614 | 569,340 | 4,923,161 | 13,655,531 |
| Sales and disposals | - | (431,876) | (727,994) | (319,936) | (372,166) | (497,887) | - | (2,349,859) |
| At end of the year | 3,895,068 | 29,653,893 | 12,678,104 | 28,862,771 | 2,614,664 | 5,127,864 | 5,846,937 | 88,679,301 |

| | | | | | | | | |
|--------------------------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Depreciation and amortization | | | | | | | | |
| At beginning of the year | - | 6,280,833 | 7,574,856 | 18,899,580 | 1,195,794 | 1,801,132 | - | 35,752,195 |
| Expense of the year | - | 1,086,649 | 1,098,322 | 2,953,678 | 510,990 | 319,283 | - | 5,968,922 |
| Sales and disposals | - | (401,464) | (468,476) | (203,745) | (330,293) | (374,135) | - | (1,778,113) |
| At end of the year | - | 6,966,018 | 8,204,702 | 21,649,513 | 1,376,491 | 1,746,280 | - | 39,943,004 |
| Net balances | 3,895,068 | 22,687,875 | 4,473,402 | 7,213,258 | 1,238,173 | 3,381,584 | 5,846,937 | 48,736,297 |

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13. Other assets

Other assets are summarized as follows:

| | 2014 | 2013 |
|--|--------------------------|--------------------------|
| Accounts receivable, National Treasury | 18,495,984 | 9,734,595 |
| Accounts receivable | 11,658,521 | 9,346,234 |
| Accounts receivable, related companies | 7,610,015 | 7,056,616 |
| Suspense accounts | 5,650,690 | 2,069,208 |
| Guarantee deposits | 4,611,679 | 3,948,843 |
| Prepaid expenses | 3,357,165 | 7,620,614 |
| Insurance premiums receivable | 2,911,195 | 1,887,069 |
| Severance and seniority fund | 2,835,871 | 2,368,498 |
| Credit-agricultural subsidy | 2,685,553 | 2,499,483 |
| Hedging instrument | 859,170 | - |
| Claims insurances receivable | 999,891 | 772,013 |
| Claims to insurance companies | 43,699 | 53,222 |
| Others | <u>343,746</u> | <u>28,793</u> |
| | <u><u>62,063,179</u></u> | <u><u>47,385,188</u></u> |

As of June 30, 2014 and 2013, accounts receivable included B/.3,416,000 and B/.3,066,000 respectively, arisen from the subrogation of the obligation contracted by a debtor with another credit entity.

14. Repurchase agreements

At June 30, 2014, securities sold under repurchase agreements for B/.635,850 are secured by investments, at an interest rate of 0.75%, maturing in July 2014 whose maturity date was not renewed.

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15. Borrowed funds

Borrowed funds were summarized as follows:

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Obligations with other banks for the financing of foreign trade, with different maturities until February 2016 at an annual interest rate from 0.3341% to 2.5034% (June 30, 2013: 0.6338% to 2.9440%) | 153,702,077 | 93,038,640 |
| Obligations with financial institutions for short - term liquidity, with renewable maturities from October 2014, and interest rate 1.2307% to 1.9619% semi annual reviewed (June 30, 2013: 1.9963%) | 80,000,000 | 50,000,000 |
| Obligations with international organizations for long term liquidity, with renewable maturities between March 2016 and May, 2020 and interest rate from 3.5100% to 5.1300% (June 30, 2013: 3.5100% to 5.1300%) | 43,161,243 | 53,392,857 |
| Stimulus program with governmental financial institutions for 5 years period and final maturities in March 2016 and interest rate from 3.3290% to 3.3440%, semi annual reviewed (June 30, 2013: 3.41476% to 3.4990%). | 34,825,917 | 60,032,156 |
| Obligations with foreign banks for working capital, with several maturities up to October 2017 and annual interest rate of 2.2603% and 2.15250% (June 30, 2013: 2.00926% to 2.4806%) | 112,640,917 | 9,006,796 |
| Obligations with multilateral financial institutions with a period of five years, redeemable from year 2, and final maturities in September 2014 until May 2018, and interest rate between 1.4790% to 4.2535%, semi annual reset (June 30, 2013: 2.9449% y 4.3209%) | 27,933,334 | 24,642,857 |
| | <hr/> 452,263,488 | <hr/> 290,113,306 |

As of June 30, 2014 and 2013, available for sale securities of B/.122,685,475 and B/.79,803,508 guarantee these borrowings. Besides, there are restricted deposits for B/.4,051,515 as of June 30, 2014 and B/.4,503,333 as of June 30, 2013. See Note 8 and 10.

The Bank has complied with the payments of principals and interest as well as the contractual clauses related to its obligations.

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16. Commercial papers

According to Resolution No.253-06 of October 26, 2006 of the Superintendency of Securities Exchange of the Panama, Global Bank Corporation was authorized to offer through Public Offer, negotiable commercial securities (called Commercial papers in Panama) for a nominal value up to B/.100,000,000 and maturity up to one year from the issuance date. The commercial papers shall be issued in a global, revolving and registered, no coupons, in denominations of B/.1,000 or its multiples, and in several series as necessary according to its cash needs and market demand. Commercial papers shall earn a fixed annual interest rate that will depend on the term of the papers and shall be determined at the time of bid offer. Interest shall be paid monthly. Commercial papers may not be prepaid by the Issuer. These commercial papers are secured by Global Bank Corporation's general credit.

The commercial papers are summarized as follows:

| <u>Serie</u> | <u>Issuance date</u> | <u>Interest rate</u> | <u>Maturities</u> | <u>2014</u> |
|---------------------|-----------------------------|-----------------------------|--------------------------|--------------------|
| B-I | August 8, 2013 | 3.00% | Aug-14 | 5,000,000 |
| B-J | September 1, 2013 | 3.00% | Aug-14 | 10,000,000 |
| B-K | December 5, 2013 | 3.00% | Nov-14 | 5,000,000 |
| B-L | January 20, 2014 | 3.00% | Jan-15 | 4,966,000 |
| B-M | February 27, 2014 | 3.25% | Feb-15 | 9,905,000 |
| B-N | April 6, 2014 | 3.25% | Apr-15 | 10,000,000 |
| B-O | May 30, 2014 | 3.25% | May-15 | 15,000,000 |
| | | | | <u>59,871,000</u> |

| <u>Serie</u> | <u>Issuance date</u> | <u>Interest rate</u> | <u>Maturities</u> | <u>2013</u> |
|---------------------|-----------------------------|-----------------------------|--------------------------|--------------------|
| B-C | January 16, 2013 | 3.00% | Jan-14 | 5,000,000 |
| B-D | March 04, 2013 | 3.00% | Feb-14 | 7,050,000 |
| B-E | April 11, 2013 | 3.00% | Apr-14 | 4,965,000 |
| B-F | May 31, 2013 | 3.00% | May-14 | 3,770,000 |
| B-G | June 17, 2013 | 3.00% | Jun-14 | 3,598,000 |
| A-X | July 09, 2012 | 3.25% | Jul-13 | 9,994,000 |
| A-Y | August 13, 2012 | 3.25% | Aug-13 | 5,000,000 |
| A-Z | September 06, 2012 | 3.25% | Sep-13 | 10,000,000 |
| B-A | November 15, 2012 | 3.00% | Nov-13 | 7,560,000 |
| B-B | December 10, 2012 | 3.00% | Dic-13 | 2,137,000 |
| | | | | <u>59,074,000</u> |

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17. Corporate bonds payable

Corporate bonds payable are summarized as follows:

| <u>Type</u> | <u>Rate</u> <u>interest</u> | <u>Maturity</u> | <u>2014</u> | <u>2013</u> |
|-----------------------------------|--------------------------------|-----------------|-------------|-------------|
| Series B-Issuance of October 2008 | 6.000% | Mar-14 | - | 3,000,000 |
| Series C-Issuance of October 2008 | 5.500% | Jun-15 | 10,000,000 | 10,000,000 |
| Series D-Issuance of October 2008 | 5.250% | Feb-18 | 17,475,399 | 17,500,000 |
| Series E-Issuance of October 2008 | 5.250% | Feb-18 | 14,479,617 | 14,500,000 |
| Series A-Issuance of May 2011 | 5.500% | Feb-19 | 50,000,000 | 50,000,000 |
| Series B-Issuance of May 2011 | 5.250% | Feb-18 | 20,000,000 | 20,000,000 |
| Series C-Issuance of May 2011 | 4.750% | May-17 | 10,000,000 | 10,000,000 |
| Series D-Issuance of May 2011 | 4.750% | Feb-18 | 13,584,000 | 10,439,000 |
| Series D-Issuance of May 2011 | 4.000% | Apr-19 | 7,071,000 | - |
| Series A-Issuance of October 2012 | 4.750% | Oct-17 | 289,874,713 | 189,664,129 |
| Series A-Issuance of June 2014 | 3.000% | Nov-18 | 83,555,905 | - |
| | | | 516,040,634 | 325,103,129 |

The guarantees granted by Global Bank Corporation for these issuances are described as follows:

Issuance of October 2008 - Bond issuance of October 2008, the Bonds will be secured by the general credit of Global Bank Corporation (the Issuer). The bonds will be issued in series, which amounts, terms and annual interest rates will be determined by the cash needs of the Issuer and the market demand. The bonds may be issued with maturities from three (3) to seven (7) years from the issuance date (the “Issuance Date”) of the corresponding bonds. The annual interest rate for each of the series may be fixed or variable at the option of the Issuer. In the case of the fixed rate, the bonds will bear an annual interest rate to be determined by the Issuer according to the market demand, at least five (5) working days prior to the issuance of each series. In the case of the variable rate, the bonds will bear an annual interest rate equivalent to one-month Libor rate “Libor (1)”, plus a spread that will be determined by the Issuer according to market demand, at least five (5) working days prior to the issuance of each series. The variable interest rate may be subject, at the option of the Issuer, to a range of minimum and maximum rates for each of the respective series.

Issuance of May 2011 - Bonds of this issue are general obligations of the Issuer, unsecured and no special privileges in terms of priority, and are backed only by the general credit of the Issuer. The bonds will be issued in series, which amounts, term, annual interest rate, maturity and first redemption date (if any) will be determined by the cash needs of the Issuer and market demand. The bonds may be offered in the primary market for 100% of its nominal value, or worth more or less than their face value, according to financial market conditions at that time.

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Each series of the bonds will accrue annual interest rate, fixed or variable, at the option of the Issuer, which will be given no less than 5 working days prior to the issuance of each series and the Issuer shall notify the Superintendency of Securities Exchange of Panama not less than 3 business days prior to the issuance of each series with a supplement to this Prospectus. In addition, the Issuer will determine the amount of each series, the term placement price, maturity and first redemption date (if any), no less than 5 working days prior to the issuance of each series and shall notify the Superintendent of Panama Stock Exchange not less than 3 business days prior to the issuance of each series with a supplement to this Prospectus. Accrued interest on the bonds of each series shall be payable in each year on a monthly, quarterly, semi-annually, at the option of the Issuer, until the date of maturity or early redemption date (if any) of the respective bond series. For each series of the issue, will be a single payment to capital at the date of maturity of each series or until early redemption. Each series of the bonds will be issued with maturity as determined by the Issuer, which will be counted from the date of issuance of each series of the bonds. The bonds may be redeemed by the Issuer, in its discretion, partially or totally, from the date fixed by the Issuer for each series, which may not be less than 2 years from the respective issuance date.

Issuance of October 2012 - Bond issue in October 2012, is guaranteed by a Guarantee Trust composed by residential mortgage loans granted in the Republic of Panama. Such collateral credits includes any amount of principal, interest, costs, charges, expenses relating to such credits, including insurance policies that guarantee any payment for compensation related to such credits. Also, the tax credits arising from the preferential mortgage portfolio. The bonds will be issued in series with maturities of five years, which amount; annual interest rate will be determined by the cash needs of the Issuer and market demand. The bonds may be offered in the primary market for 100% of its nominal value, or higher or than their nominal value, according to financial market conditions at that time. Global Bank Corporation may issue up to \$ 500 million under the structure of these residential mortgage-secured bonds. Because there is no guarantee bonds law in Panama, Global Bank issued these bonds by transferring the mortgage portfolio to an irrevocable trust with a third party warranty. The issuer of these bonds will always be responsible to pay the bonds at maturity. As of December 31, 2013, a new tranche for an amount of B/.100,000,000 issued.

Issuance of June 2014 - The issuance constitutes direct, unconditional and unsecured obligations of the bonds of this issuer. The total amount of the issuance is CHF 75,000,000 (seventy-five million Swiss Francs) and is divided into issued bonds with denominations of CHF 5,000 (five thousand Swiss Francs) and its integer multiples. Bonds will bear payable interests annually at the rate of 3% of their principal, until the expiration date. The estimation of the interests will be done according to one year of three hundred sixty (360) days, divided into twelve (12) months of thirty (30) days each month.

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The issuer reserves the right to re-open and increase the total amount of the issuance at any time without consulting or authorization of the bondholders.

The bonds will be governed exclusively in accordance with Switzerland laws. The city of Zurich in Switzerland has exclusive jurisdiction for any dispute, claim or controversy that arises in relation with the bonds. According to what is permitted by the law, the Zurich Commercial Court will have exclusive material jurisdiction. The jurisdiction is also valid exclusively for the declaration of payment of the bonds. The registered bondholders will have the power to enforce their rights and take legal action against the issuer in the Panamanian Courts, or in any other court in which the jurisprudence of Switzerland is applied.

The Bank entered into an interest rate swap on these bonds that qualified as fair value hedge. As of June 30, 2014 and 2013, the fair value attributable to the hedged risk was B/.2,132,024 and B/.3,887,121, respectively. See Notes 21 and 22.

18. Convertible bonds

Global Bank Corporation was authorized by Resolution No.172-09 dated June 5, 2009 of the Superintendency of Securities Exchange of Panama, through Public Offering, Subordinated convertible bonds into Common Shares at a nominal value of B/.30,000,000, whose terms and conditions were amended by Resolution No. 390-09 of December 18, 2009. The bonds will be issued in series, and their amounts and annual interest rates will be determined according to the needs of the Issuer and market demand. The bonds will be issued with a maturity of (5) years from the issuance date. The annual interest rate for each series may be fixed or variable at the option of the Issuer. For each series, interest will be payable monthly, until their expiration date or conversion date. For each series, at its expiration date or date of convertibility, the nominal value of each bond will be paid by converting that amount into conversion common shares of Global Bank Corporation, based at a fixed price per share of Global Bank Corporation to be determined for each series of bonds, prior to the issuance of the respective series through a supplement to the prospectus information. The bonds will be subordinated to depositors and creditors in general of the Issuer. The bonds will not be acceptable as guarantee of credit facilities with the Issuer, according to provisions imposed by the Superintendency of Banks of Panama. The bonds will be supported by the general credit of Global Bank Corporation.

In case one or more events of default occurred, continued and have not been corrected, registered holders representing twenty-five percent (25%) or more of the total nominal value of bonds issued and outstanding may:

- Issuing an overdue statement (the “past due statement”), which shall be notified in writing to the Issuer, the Paying Agent, Register and Transfer and Registered Holders, which are declared by all bonds overdue issue and require immediate payment to the issuer of principal and interest thereon and on which date each and every one of the bonds will be an overdue obligation without any person from complying with any other act, notification or requirement without need for prior judicial resolution.

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- Require the issuer to make a special contribution of cash to the Paying Agent, Register and Transfer for the amount necessary to cover the principal of the bonds issued and outstanding, interest earned, whether or regular and delinquent all and any expenses, fees or other amounts owed by the issuer to the registered holders of the bonds.

As of June 30, 2014 and 2013, there were convertible bonds issued for a total of B/.10,000,000.

19. Subordinated bonds

Global Bank Corporation was authorized by Resolution No.324-10 of August 26, 2010 by the Superintendency of Securities Exchange of Panama to offer through public offering non-cumulative subordinated bonds of Global Bank Corporation for a total nominal value of B/.150,000,000, issued in form, coupons. The bonds will be issued in denominations of B/.1,000 or its multiples. The bonds will be issued in series, whose amount, term and annual interest rates will be determined by the Issuer's cash needs and market demand. The bonds may be offered in the primary market for 100% of their nominal value or a value above or below face value, according to financial market conditions at that time. The annual interest rate for each of series may be fixed or variable at option of the Issuer. In case of fixed rate, bonds bear an annual interest rate that will be determined by the Issuer according to market demand. In case of variable rate, bonds bear an annual interest rate equivalent to one month LIBOR plus a spread that will be determined by the Issuer according to market demand. The variable interest rate may be subject, at the option of the Issuer, at a rate range with minimum and maximum amount for each of the respective series. The variable rate will be reviewed and determined monthly, as described in Section III (A) (6) of the Informative Prospectus. The Issuer will determine the amount of each series, the term placement price, interest rate and early redemption date, not less than 5 working days prior to the issuance of each series and notify the Superintendency of Securities Exchange of Panama at least 3 business days prior to the issuance of each series with a supplement to the Informative Prospectus. Accrued interest on bonds of each series will be payable on 30 days until the maturity date of early redemption date, earliest date. For each series of the issue will be a single capital payment on the due date of each series or until early redemption. The bonds will be issued with a maturity of up to 60 years, at the option of the Issuer, from the issuance date. The bonds may be redeemed by the Issuer, at its discretion, in whole or in part, from the date determined by the Issuer for each series, which may not be less than 3 years from their related issuance date. The bonds may be redeemed prior to the 3 years for regulatory events occurring beyond the control of the Issuer. The bonds of this issue are general obligations of the Issuer, subordinated, unsecured and without special privileges as to priority, and are only supported by the general credit of the Issuer.

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| Type | Interest rate | Maturity | 2014 | 2013 |
|-----------------------------------|---------------|----------|-------------------|-------------------|
| Serie A-Issuance of August 2010 | 6.75% | ago-70 | 15,020,000 | 15,020,000 |
| Serie B-Issuance of November 2010 | 6.75% | ago-70 | 29,648,212 | 30,000,000 |
| Serie C-Issuance of December 2010 | 6.75% | ago-70 | 39,854,346 | 40,000,000 |
| Serie D-Issuance of May 2011 | 6.75% | ago-70 | 5,000,000 | 5,000,000 |
| | | | <u>89,522,558</u> | <u>90,020,000</u> |

20. Reserves of insurance operations

As of June 30, 2014 and 2013, reserves of insurance operations amounted to B/.4,646,082 and B/.4,067,714, respectively, and are comprised of unearned premiums and unpaid claims, estimated.

Unearned premiums

| | 2014 | 2013 |
|------------------------------|--------------------|--------------------|
| Balance at beginning of year | 2,695,471 | 2,084,936 |
| Suscribed premiums | 17,663,263 | 14,574,258 |
| Earned premiums | <u>(8,551,417)</u> | <u>(6,863,180)</u> |
| Balance at end of the year | 11,807,317 | 9,796,014 |
| Reinsurers' participation | <u>(8,948,206)</u> | <u>(7,100,543)</u> |
| Unearned premiums, net | <u>2,859,111</u> | <u>2,695,471</u> |

Unpaid claims, estimated

| | 2014 | 2013 |
|---------------------------------------|--------------------|--------------------|
| Balance at beginning of the year | 1,372,243 | 806,985 |
| Incurred claims | 4,464,619 | 4,007,020 |
| Paid claims | <u>(4,048,153)</u> | <u>(3,404,511)</u> |
| Balance at end of the year | 1,788,709 | 1,409,494 |
| Reinsurers' participation | <u>(1,738)</u> | <u>(37,251)</u> |
| Unpaid claims, estimated net | <u>1,786,971</u> | <u>1,372,243</u> |
| Total reserve of insurance operations | <u>4,646,082</u> | <u>4,067,714</u> |

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21. Derivative financial instruments

In order to reduce its exposure risk, the counterparties of these agreements are solid and well known financial institutions. Such agreements are recorded at fair value in the consolidated statement of financial position based on the fair value hedge or cash flows hedged method, in other assets or other liabilities, as applicable.

Cash flows hedge

The Bank made an interest rate swap to hedge variable-rate debt at a par value of B/.4,375,000 as of June 30, 2014 and B/.10,000,000 as of June 30, 2013 redeemable. This derivative is designated as a cash flow hedge in order to protect variables cash flows related to liability. The instrument "swap" makes the net amount receive payments between interest rate and pay a fixed rate for each payment period, which began in May 2011 and end in March 2016. Payments of "swap" interest rate and payment of interest on the debt, which are made quarterly, occur simultaneously. The variable "swap" rate is Libor 3 plus a spread of 2%, which at the date of these consolidated financial statements has a market level of 0.23070% as of June 30, 2014 and 0.27310% as of June 30, 2013.

Fair value hedge

To manage its position in the consolidated statement of financial position, the Bank has made interest rate swap contracts on corporate bonds with a nominal value of B/.300,000,000 as of June 30, 2014 and B/.200,000,000 as of June 30, 2013, that allow it to convert the fixed interest rate on variable rate during each pay period; and cross currency swap contracts on corporate bonds with a nominal value of B/.83,892,617 as of June 30, 2014, that allow it to convert the fixed interest rate on variable rate and hedge the exchange rate the during each pay period.

A summary of derivative contracts based on maturities and accounting method follows:

| <u>Accounting method</u> | 2014 | | |
|--------------------------|---------------------------|-------------------------|--|
| | Remaining maturity | | |
| | notional amount | More than a year | |
| Cash flows | | 4,375,000 | |
| Fair value | | 383,892,617 | |
| Total | | 388,267,617 | |

| <u>Accounting method</u> | 2013 | | |
|--------------------------|---------------------------|-------------------------|--|
| | Remaining maturity | | |
| | notional amount | More than a year | |
| Cash flows | | 10,000,000 | |
| Fair value | | 200,000,000 | |
| Total | | 210,000,000 | |

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As of June 30, 2014 and 2013, the notional amount and estimated fair value of interest rate swaps are presented in the table below. The fair value of derivative financial instruments is estimated using internal valuation models with observable market data.

| <u>Type</u> | 2014 | | 2014 | |
|---|------------------------|--------------------|------------------------|--------------------|
| | <u>Notional amount</u> | <u>Fair value</u> | <u>Notional amount</u> | <u>Fair value</u> |
| Derivatives for cash flows hedges (for funding) | 4,375,000 | (49,892) | 10,000,000 | (100,816) |
| Total | <u>4,375,000</u> | <u>(49,892)</u> | <u>10,000,000</u> | <u>(100,816)</u> |
| 2013 | | 2013 | | |
| <u>Type</u> | <u>Notional amount</u> | <u>Fair value</u> | <u>Notional amount</u> | <u>Fair value</u> |
| Derivatives for cash flows hedges (for funding) | 383,892,617 | (2,132,024) | 200,000,000 | (3,887,121) |
| Total | <u>383,892,617</u> | <u>(2,132,024)</u> | <u>200,000,000</u> | <u>(3,887,121)</u> |

The changes in the fair value of cash flows hedge of B/.50,924 as of June 30, 2014 and B/.63,090 as of June 30, 2013, are recognized in the consolidated statements of changes in equity.

For cash flow hedges, the effective portion of gains or losses resulting from changes in fair value of a hedging derivative instrument is included in other comprehensive income (loss) earnings. The ineffective portion (indicated by the excess of cumulative change in fair value of the derivative of the amount needed to offset the cumulative change in expected future cash flows of the hedging transactions) is included in other income (expense). During the period, the hedge was highly effective to hedge the variability in interest rates risk that could affect the cash flows of the bank.

For the fair value hedge, the gains or loss from the changes of the hedging instrument as well as the hedged item attributable to the hedged risk are included in other income (expenses).

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22. Other liabilities

Details of other liabilities are shown as follows:

| | 2014 | 2013 |
|--|-------------------------|-------------------------|
| Other payables | 9,483,281 | 14,866,530 |
| Hedging derivatives | 2,991,194 | 3,887,121 |
| Insurances payables | 1,880,847 | 1,291,338 |
| Suspense accounts | 5,393,519 | 5,926,040 |
| Guarantee deposits-due to clients and others | 4,082,984 | 6,349,299 |
| Interest payable Compensations Special Fund (FEKI) | 1,336,432 | 1,011,219 |
| Income tax payable | 829,504 | 2,666,642 |
| Employee benefits and other payroll taxes | 9,986,115 | 8,951,213 |
| Reserves for insurance operations | 4,646,082 | 4,067,714 |
| Other provisions | 2,219,695 | 1,816,124 |
| | <hr/> <u>42,849,653</u> | <hr/> <u>50,833,240</u> |

Retained guarantees payable clients consist of a percentage of each discounted invoice, retained until it is fully collected. If at the end of the contract, the invoices become uncollectible, the account receivable is charged to the retained guarantees payable.

23. Common shares

The issued and outstanding share capital of Global Bank Corporation is constituted by 2,000,000 common shares at no-par value, 100,000 shares are issued and outstanding for B/.78,202,657 for both years, respectively. As of June 30, 2014 and 2013, dividends paid were B/.8,264,645 and B/.9,330,040, respectively.

24. Share based payments

As of June 30, 2014, 96,488 share options on common share of its Head Office (G.B. Group Corporation) were granted to key executives that will expire: 18,831 in 2014; 35,787 in 2015; 18,832 in 2016 and 23,038 in 2017 at an average exercise price of B/.24.80. The Bank recognized B/.981,756 as salaries and other employee benefits in the statement of consolidated of profit or loss and the related entry in the shareholder equity section, to reflect the capital contribution to be received from its Head Office.

These share options do not have voting rights, but to receive dividends.

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25. Operating lease arrangements

Lease agreements

The Bank has several operating leases for its premises with periods from 1 to 5 years. For the year ended June 30, 2014 and 2013, rental payments were B/.2,689,945 and B/.2,295,627, respectively.. Minimum lease commitments under all lease agreements for the next five years are detailed below:

| | 2014 | 2013 |
|----------------------|------------------|-------------------|
| Up to 1 year | 1,994,029 | 1,632,562 |
| Between 1 to 5 years | <u>7,878,988</u> | <u>8,934,434</u> |
| | <u>9,873,017</u> | <u>10,566,996</u> |

26. Commitments and contingencies

The Bank maintains financial instruments outside the consolidated statement of financial position with credit risks that arise in the normal course of business and which involve elements of credit and liquidity risk. Such financial instruments include commercial letters of credit, guarantees and endorsements granted, which are summarized as follows:

| | 2014 | 2013 |
|----------------------------|------------------------|------------------------|
| Letters of credits | 52,567,753 | 71,171,717 |
| Guarantees and endorsement | 288,745,678 | 355,157,749 |
| Promissory notes | 342,722,084 | 249,691,410 |
| Unused lines of credit | <u>137,813,041</u> | <u>79,628,306</u> |
| Total | <u>821,848,556</u> | <u>755,649,182</u> |

Commercial letters of credit, guarantees issued and loan commitments include exposure to some credit loss in the event of default by the customer. The Bank's credit policies and procedures to approve credit commitments and financial guarantees are the same as those for granting of loans that are recorded on the consolidated statement of financial position.

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

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

As of June 30, 2014, the Bank has commitments for projects in construction of its new facilities of B/.8,805,332.

27. Trust management of trust and investment portfolio

As of June 30, 2014 and 2013, the Bank maintained under its management, trust contracts at the risk of their clients that amounted to B/.1,050,470,766 and B/.635,642,987, respectively.

An investment portfolio at the risk of clients of B/.873,788,858 as of June 30, 2014 and B/.754,155,091, as of June 30, 2013, is managed under administration.

Considering the nature of these services, the Bank's management does not anticipate any losses.

28. Income tax

The income tax returns of companies incorporated at the Republic of Panama are subject to examination by the tax authorities for the last three years, including the year ended June 30, 2014, according to current fiscal 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 securities issued through the Panama Stock Exchange.

The subsidiaries Global Capital Investment Corp. and Global Bank Overseas are not subject to income tax payment in their respective jurisdictions, due to the nature of their foreign operations; however, income tax on operations that generate taxable income in other jurisdictions is classified within the income tax expense.

In reference to Law No.8 of March 15, 2010 in Official Gazette No. 26489-A, the general income tax rates (ISR) are amended. For financial institutions, the current rate is 25% from January 1, 2014.

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A reconciliation of the current income tax is presented in the following manner:

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Net income before income tax | 74,526,801 | 81,256,796 |
| Less: Non-taxable income | (72,687,757) | (71,531,134) |
| Plus: Non-deductible expenses | 32,811,619 | 24,279,801 |
| Plus: Tax loss in subsidiaries | <u>52,559</u> | <u>36,521</u> |
| Tax base | <u>34,703,222</u> | <u>34,041,984</u> |
| Income tax calculated at 25% (2012: 27.5%) | 8,675,806 | 9,361,546 |
| Withholding tax | <u>86,106</u> | <u>106,792</u> |
| Current income tax expense | <u>8,761,912</u> | <u>9,468,338</u> |

On August 29, 2012, entered into force the Law No.52, reforming regulations on transfer pricing regime towards to regulate prices for tax purposes transactions between related parties, so that the considerations between them are similar to those which third parties. According to those rules, taxpayers carrying out transactions with related parties that have an impact on revenues, costs or deductions in determining taxable income for purposes of income tax, the tax period in which declared or the operation takes place, must prepare an annual report on the operations performed within six months following the termination of the relevant tax period (Form 930). These transactions are subject to a review in order to verify that they meet the assumptions established ruled in the Act.

At the date of these consolidated financial statements, the Bank is in the process of contemplating such an analysis, but according to the Administration, it is not expected that it will have a significant impact on the estimated income tax for the period.

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements June 30, 2014 and 2013 (In balboas)

29. Segment information

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

| | 2014 | | |
|---------------------------------------|---|------------------------------|---------------------------|
| | Banking and financial activities | Insurances activities | Total consolidated |
| Interest and commission income | 265,259,524 | 1,007,890 | 266,267,414 |
| Interest expenses and provision | 126,595,145 | - | 126,595,145 |
| Other income, net | 10,479,196 | 4,547,858 | 15,027,054 |
| General and administrative expenses | 71,631,897 | 1,773,280 | 73,405,177 |
| Depreciation and amortization expense | <u>6,681,194</u> | <u>86,151</u> | <u>6,767,345</u> |
| Profit before income tax | 70,830,484 | 3,696,317 | 74,526,801 |
| Income tax | 7,834,644 | 721,646 | 8,556,290 |
| Net income | <u>62,995,840</u> | <u>2,974,671</u> | <u>65,970,511</u> |
| Total assets | <u>4,450,996,326</u> | <u>28,630,886</u> | <u>4,479,627,212</u> |
| Total liabilities | <u>4,103,405,127</u> | <u>7,093,873</u> | <u>4,110,499,000</u> |
| 2013 | | | |
| | Banking and financial activities | Insurances activities | Total consolidated |
| Interest and commission income | 236,914,816 | - | 236,914,816 |
| Interest expenses and provision | 114,327,652 | - | 114,327,652 |
| Other income, net | 26,361,237 | 3,428,080 | 29,789,317 |
| General and administrative expenses | 63,505,579 | 1,645,184 | 65,150,763 |
| Depreciation and amortization expense | <u>5,875,593</u> | <u>93,329</u> | <u>5,968,922</u> |
| Profit before income tax | 79,567,229 | 1,689,567 | 81,256,796 |
| Income tax | 9,720,188 | - | 9,720,188 |
| Net income | <u>69,847,041</u> | <u>1,689,567</u> | <u>71,536,608</u> |
| Total assets | <u>3,786,034,542</u> | <u>25,061,282</u> | <u>3,811,095,824</u> |
| Total liabilities | <u>3,499,132,292</u> | <u>4,532,015</u> | <u>3,503,664,307</u> |

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements

June 30, 2014 and 2013

(In balboas)

30. First time adoption of International Financial Reporting Standards (IFRS) - Aseguradora Global, S.A.

Based on Law 12 of April 3, 2012 of Superintendency of Insurances and Reinsurances of Panama, the financial statements of Aseguradora Global, S.A., have been prepared in conformity with IFRS 1 (First Time Adoption).

Management considers the effects are immaterial in relation to the Bank's financial statements. Following are detailed the effects on the financial position, financial performance and cash flows of IFRS 1.

| | 2013 | 2012 |
|---|---|---|
| | Effect of transition to IFRS | Effect of transition to IFRS |
| Consolidated statement of financial position: | | |
| Technical reserve on premiums | 157,911 | 708,129 |
| Retained earnings | <u>(157,911)</u> | <u>(708,129)</u> |
| Consolidated statement of profit or loss (expense) | <u>(157,911)</u> | <u>(708,129)</u> |
| Consolidated statement of cash flows | <u>—</u> | <u>—</u> |

31. Reclassifications

Certain amounts of 2013, have been reclassified according to their presentation to 2014. Below a detail of the accounts reclassified:

| Consolidated statement of profit or loss: | As reported | Reclassification | Reclassified |
|--|--------------------|-------------------------|---------------------|
| Savings accounts and debit cards | - | 2,930,190 | 2,930,190 |
| Fiduciary and management fees | - | 1,520,682 | 1,520,682 |
| Others | 10,479,236 | (4,450,872) | 6,028,364 |

32. Approval of financial statement

These consolidated financial statements of Global Bank Corporation and Subsidiaries for the years ended June 30, 2014 and 2013 were authorized by General Management and approved by the Board of Directors for issuance on July 25, 2014.

* * * * *

Global Bank Corporation and Subsidiaries

Consolidated financial statements for the years ended
June 30, 2013 and 2012 and Independent Auditors'
Report of July 23, 2013

Global Bank Corporation and Subsidiaries

Independent Auditors' Report and 2013 Consolidated Financial Statements

| Contents | Pages |
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INDEPENDENT AUDITORS' REPORT

Messrs
Shareholder's and Board of Directors
Global Bank Corporation and Subsidiaries
Panama, Republic of Panama

Teléfono: (507) 303-4100
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We have audited the accompanying consolidated financial statements of **Global Bank Corporation and Subsidiaries** which comprise the consolidated statement of financial position as at June 30, 2013 and 2012, and the consolidated statements of profits or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in shareholder's equity and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as they have been modified by prudential regulations issued by the Superintendency of Banks of Panama, for the purposes of supervision and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or errors. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all important respects, the financial position of **Global Bank Corporation and Subsidiaries** as at June 30, 2013 and 2012, and its results of operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards, as they have been modified by prudential regulations issued by the Superintendency of Banks of Panama, for the purposes of supervision as described in Note 3.1 of the consolidated financial statements.

/s/ Deloitte, Inc.

July 23, 2013
Panama, Republic of Panama

Global Bank Corporation and Subsidiaries

Consolidated statements of financial position

June 30, 2013 and 2012

(In balboas)

| | Notes | 2013 | 2012 | |
|--|------------|---------------|---------------|--|
| Assets | | | | Liabilities and shareholder's equity |
| Cash and cash items | | 34,224,420 | 37,474,158 | Due to customers: |
| Due from banks: | | | | Demand - domestic |
| Demand - domestic | | 29,436,346 | 21,590,626 | Demand - foreign |
| Demand - foreign | | 45,151,027 | 26,803,197 | Savings - domestic |
| Time - domestic | | 170,404,000 | 121,473,000 | Savings - foreign |
| Time - foreign | | 209,124,270 | 167,186,936 | Time - domestic |
| Total due from banks | | 454,115,643 | 337,053,759 | Time - foreign |
| Total cash, cash items and due from banks | 8, 11, 16 | 488,340,063 | 374,527,917 | Interbank time deposits domestic |
| Securities purchased under resale agreement | 9 | 5,497,680 | 1,044,500 | Total clients' and interbank deposits |
| Securities available for sale | 10, 15, 16 | 271,593,529 | 134,721,092 | Securities sold under repurchase agreements |
| Securities held to maturity | 11 | - | 264,310,692 | Borrowed funds |
| Loans: | 7, 12 | | | Commercial papers |
| Domestic | | 2,747,447,890 | 2,394,218,021 | Corporate bonds payable |
| Foreign | | 213,364,174 | 132,978,854 | Convertible bonds |
| | | 2,960,812,064 | 2,527,196,875 | Subordinated bonds |
| Less: | | | | Other liabilities: |
| Allowance for possible loan losses | | 41,708,500 | 38,996,226 | Cashier's and certified checks |
| Unearned interest and commission | | 16,335,857 | 12,838,411 | Accrued interest payable |
| Loans, net | | 2,902,767,707 | 2,475,362,238 | Acceptances outstanding |
| Property, furniture, equipment and improvements, net | 13 | 48,736,297 | 41,621,434 | Other liabilities |
| Other assets: | | | | Total other liabilities |
| Accrued interests receivable: | 7 | | | Total liabilities |
| Time deposits | | 244,422 | 369,387 | Commitments and contingencies |
| Loans | | 22,362,105 | 19,598,854 | Shareholder's equity |
| Investments | | 3,785,680 | 5,357,040 | Common shares |
| Clients' obligations under acceptances | | 558,128 | 1,489,169 | Capital reserve |
| Goodwill, net | | 8,355,187 | 8,355,187 | Regulatory reserve |
| Deferred income tax | 26 | 11,469,838 | 11,799,949 | Net changes on securities available for sale |
| Other assets | 7,14 | 47,385,188 | 43,465,619 | Net changes in hedging instruments |
| Total other assets | | 94,160,548 | 90,435,205 | Retained earnings |
| | | | | Total shareholder's equity |
| Total assets | | 3,811,095,824 | 3,382,023,078 | Total liabilities and shareholder's equity |

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

Global Bank Corporation and Subsidiaries

Consolidated statements of profit or loss For the years ended June 30, 2013 and 2012 (In balboas)

| | Notes | 2013 | 2012 |
|---|-------|--------------------|---------------------|
| Interest and commission income | | | |
| Interest earned on: | 7 | | |
| Loans | | 187,147,992 | 164,916,947 |
| Deposits | | 1,332,132 | 1,427,736 |
| Investments | | 19,234,443 | 21,435,604 |
| Total interest earned | | <u>207,714,567</u> | <u>187,780,287</u> |
| Commission income on: | | | |
| Loans | | 16,562,843 | 14,378,609 |
| Letters of credit | | 2,158,168 | 3,130,121 |
| Others | | 10,479,238 | 8,526,875 |
| Total commission income | | <u>29,200,249</u> | <u>26,035,605</u> |
| Total interest and commission income | | <u>236,914,816</u> | <u>213,815,892</u> |
| Interest and commission expenses | 7 | | |
| Deposits | | 66,186,375 | 61,733,555 |
| Borrowed funds and repurchase agreements | | 11,032,990 | 10,612,878 |
| Commercial papers and corporate bonds | | 22,505,495 | 12,929,109 |
| Commission expenses | | 5,171,195 | 4,824,096 |
| Total interest and commission expenses | | <u>104,896,055</u> | <u>90,099,638</u> |
| Net interest and commission, before allowance | | <u>132,018,761</u> | <u>123,716,254</u> |
| Less: provision for possible loan losses | 12 | <u>(8,499,996)</u> | <u>(15,575,000)</u> |
| Net interest and commission, income after allowance | | <u>123,518,765</u> | <u>108,141,254</u> |
| Other income: | | | |
| Net gain in redemption and sold securities | 10 | 26,495,473 | 3,438,856 |
| Net loss in financial instruments | 10,21 | (2,313,094) | (168,519) |
| Insurance premiums, net | | 3,585,991 | 3,105,062 |
| Trust and brokerage services | | 129,535 | 76,430 |
| Other income | | 2,049,323 | 4,058,258 |
| Total other income, net | | <u>29,947,228</u> | <u>10,510,087</u> |
| Total income, net | | <u>153,465,993</u> | <u>118,651,341</u> |
| General and administrative expenses | | | |
| Salaries and wages | 7 | 31,117,503 | 30,243,725 |
| Fees and professional services | | 4,112,599 | 3,139,143 |
| Depreciation and amortization | 13 | 5,968,922 | 5,357,118 |
| Advertising | | 3,904,654 | 2,920,820 |
| Maintenance and repairs | | 4,509,632 | 3,603,480 |
| Rentals | | 2,295,627 | 1,677,954 |
| Communications and postage | | 1,247,702 | 1,100,135 |
| Stationary supplies | | 878,446 | 778,540 |
| Insurances | | 3,924,573 | 3,648,356 |
| Security | | 1,311,095 | 1,060,814 |
| Other taxes | | 3,042,125 | 2,560,499 |
| Others | | 9,738,408 | 7,732,611 |
| Total general and administrative expenses | | <u>72,051,286</u> | <u>63,823,195</u> |
| Profit before income tax | | <u>81,414,707</u> | <u>54,828,146</u> |
| Income tax: | 26 | | |
| Current | | 9,468,338 | 6,838,446 |
| Deferred | | 251,850 | (2,361,948) |
| Income tax, net | | <u>9,720,188</u> | <u>4,476,498</u> |
| Net income | | <u>71,694,519</u> | <u>50,351,648</u> |

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

Global Bank Corporation and Subsidiaries

Consolidated statements of comprehensive income

For the years ended June 30, 2013 and 2012

(In balboas)

| | Notes | 2013 | 2012 |
|---|-------|-------------------|--------------------|
| Net income | | <u>71,694,519</u> | <u>50,351,648</u> |
| Other comprehensive income: | | | |
| Net income realized in securities available for sale transferred to income | 10 | 26,495,473 | 3,438,856 |
| Net change in securities available for sale | 10 | (15,341,185) | (5,097,648) |
| Net changes in hedging instruments | 21 | <u>63,090</u> | <u>(88,757)</u> |
| Total other comprehensive income | | <u>11,217,378</u> | <u>(1,747,549)</u> |
| Total net comprehensive income of the year | | <u>82,911,897</u> | <u>48,604,099</u> |

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

Global Bank Corporation and Subsidiarias

Consolidated statements of changes in shareholder's equity

For the years ended June 30, 2013 and 2012

(In balboas)

| Note | Total shareholder's equity | Common shares | Preferred shares | Capital reserve | Regulatory reserve | Net changes in securities available for sale | Net changes in hedging instruments | Retained earnings |
|--|----------------------------|---------------|------------------|-----------------|--------------------|--|------------------------------------|-------------------|
| Balance at June 30, 2011 | 194,223,067 | 65,731,541 | 12,515,500 | 14,952,936 | 76,066 | 3,036,039 | (75,149) | 97,986,134 |
| Plus comprehensive income comprise of: | | | | | | | | |
| Net income | 50,351,648 | - | - | - | - | - | - | 50,351,648 |
| Net changes in securities | (1,658,792) | - | - | - | - | (1,658,792) | - | - |
| Net changes in hedging instruments | (88,757) | - | - | - | - | - | (88,757) | - |
| Total of comprehensive income for the year | 48,604,099 | - | - | - | - | (1,658,792) | (88,757) | 50,351,648 |
| Issuance of common shares | 12,471,116 | 12,471,116 | - | - | - | - | - | - |
| Redemption of preferred shares | (12,515,500) | - | (12,515,500) | - | - | - | - | - |
| Dividends paid - common shares | (6,387,712) | - | - | - | - | - | - | (6,387,712) |
| Dividends paid - preferred shares | (893,995) | - | - | - | - | - | - | (893,995) |
| Legal reserve | - | - | - | 6,232,051 | - | - | - | (6,232,051) |
| Regulatory reserve | 3,247 | - | - | - | 3,247 | - | - | - |
| Complementary tax | (549,770) | - | - | - | - | - | - | (549,770) |
| Balance at June 30, 2012 | 234,954,552 | 78,202,657 | - | 21,184,987 | 79,313 | 1,377,247 | (163,906) | 134,274,254 |
| Balance at June 30, 2012 | 234,954,552 | 78,202,657 | - | 21,184,987 | 79,313 | 1,377,247 | (163,906) | 134,274,254 |
| Plus comprehensive income comprise of: | | | | | | | | |
| Net income | 71,694,519 | - | - | - | - | - | - | 71,694,519 |
| Net changes in securities | 11,154,288 | - | - | - | - | 11,154,288 | - | - |
| Net changes in hedging instruments | 63,090 | - | - | - | - | - | 63,090 | - |
| Total of comprehensive income for the year | 82,911,897 | - | - | - | - | 11,154,288 | 63,090 | 71,694,519 |
| Adjustment to regulatory reserve | - | - | - | - | (70,730) | - | - | 70,730 |
| Dividends paid - common shares | 23 | (9,330,040) | - | - | - | - | - | (9,330,040) |
| Legal reserve | 534,896 | - | - | 8,368,485 | - | - | - | (7,833,589) |
| Complementary tax | (773,748) | - | - | - | - | - | - | (773,748) |
| Balance at June 30, 2013 | 308,297,557 | 78,202,657 | - | 29,553,472 | 8,583 | 12,531,535 | (100,816) | 188,102,126 |

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

Global Bank Corporation and Subsidiaries

Consolidated statements of cash flows For the years ended June 30, 2013 and 2012 (In balboas)

| | Notes | 2013 | 2012 |
|---|-------|--------------------|----------------------|
| Cash flows from operating activities | | | |
| Net income of the year | | 71,694,519 | 50,351,648 |
| Depreciation and amortization | 13 | 5,968,922 | 5,357,118 |
| Gain on sale of furniture and equipment | 13 | 7,609 | 18,205 |
| Gain on sale of available for sale securities | 10 | 26,495,473 | 3,438,856 |
| Provision for possible loan losses | 12 | 8,499,996 | 15,575,000 |
| Income tax expense | 26 | 9,720,188 | 4,476,498 |
| Interest income | | (207,714,567) | (187,780,287) |
| Interest expense | | 99,724,860 | 85,275,542 |
| Allowance for seniority premium | | 578,304 | 742,078 |
| Net changes in operating assets and liabilities: | | | |
| Decrease in time deposits over 90 days | 8 | 10,894,000 | 19,795,000 |
| Decrease (increase) in restricted deposits | 8 | 15,996,667 | (17,500,000) |
| Increase in securities purchased under resale agreements | | (4,453,180) | (30,000) |
| Increase in loans | | (439,402,911) | (422,643,637) |
| Increase in unearned interest and commission | | 3,497,446 | 3,981,859 |
| Increase in other assets | | (18,650,186) | (12,008,344) |
| Increase in demand deposits and savings accounts | | 112,549,371 | 83,341,350 |
| Increase in time deposits | | 205,706,247 | 128,917,086 |
| Increase in interbank deposits | | 21,256,477 | 14,816,800 |
| Increase in other liabilities | | 11,277,779 | 10,572,782 |
| Income tax paid | | 6,271,583 | 1,815,152 |
| Interest received | | 206,647,641 | 188,079,613 |
| Interest paid | | (96,078,334) | (81,711,718) |
| Seniority premium paid | | (140,025) | (130,273) |
| Net cash provided by (used in) operating activities | | <u>50,347,879</u> | <u>(105,249,672)</u> |
| Cash flows from investing activities | | | |
| Purchase of securities available for sale | 10 | (50,172,840) | (50,884,832) |
| Sale and redemptions of securities available for sale | 10 | 180,374,003 | 47,066,585 |
| Purchase of securities held to maturity | 11 | (25,095,502) | (33,090,169) |
| Redemptions of securities held to maturity | 11 | 6,991,409 | 21,679,731 |
| Purchase of furniture and equipment, net | 13 | (13,655,531) | (8,346,049) |
| Proceeds from sale and discard of furniture and equipment | 13 | <u>564,137</u> | <u>31,895</u> |
| Net cash provided by (used in) investing activities | | <u>99,005,676</u> | <u>(23,542,839)</u> |
| Cash flows from financing activities | | | |
| Securities sold under repurchase agreements | | (29,915,818) | 29,915,818 |
| Borrowed funds | | (146,661,159) | 86,932,865 |
| Proceeds from issuance of commercial papers and corporate bonds | | 177,495,129 | 73,157,236 |
| Dividends paid - common shares | 23 | (9,330,040) | (6,387,712) |
| Dividends paid - preferred shares | | - | (893,995) |
| Proceeds from regulatory reserve | | 70,730 | - |
| Issuance of common shares | | - | 12,471,116 |
| Redemption of preferred shares | | - | (12,515,500) |
| Proceed from regulatory reserve | | 464,164 | 3,247 |
| Complementary tax | | (773,748) | (549,770) |
| Net cash (used in) provided by financing activities | | <u>(8,650,742)</u> | <u>182,133,305</u> |
| Net increase in cash and cash equivalents | | 140,702,813 | 53,340,794 |
| Cash and cash equivalents at the beginning of year | | <u>332,754,917</u> | <u>279,414,123</u> |
| Cash and cash equivalents at the end of year | 8 | <u>473,457,730</u> | <u>332,754,917</u> |
| Non monetary transactions: | | | |
| Reclassification from held to maturity to available for sale | 11 | <u>282,414,785</u> | <u>-</u> |
| Proceeds from regulatory reserve | | <u>70,730</u> | <u>-</u> |

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

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements

For the years ended June 30, 2013 and 2012

(In balboas)

1. General information

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

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

The Bank is a wholly owned subsidiary of G.B. Group Corporation, incorporated on April 20, 1993 under the laws of the Republic of Panama.

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

- Factor Global, Inc., a Panamanian company that started operations in 1995, mainly engaged on factoring business of invoices issued by third parties.
- Global Financial Funds Corporation, a Panamanian company that started operations in 1995, mainly engaged in the trust business.
- Global Capital Corporation, a Panamanian company that started operations in 1994, mainly engaged in corporate financial business and financial advisory.
- Global Capital Investment Corporation, a company incorporated under the Laws of Companies of Tortola, British Virgin Islands, started operations in 1993, mainly engaged on factoring business of invoices issued by third parties.
- Global Valores, S.A., a Panamanian company that started operations in 2002, mainly engaged in the brokerage business through Stock Exchange of the Republic of Panama. The operations of Global Valores, S.A. are regulated by the Superintendency of Securities of Panama in accordance with the laws established by Decree Law No.1 of July 8, 1999. Besides, the operations of brokerage business, are regulated by the Agreement 4-2011 established by the Superintendency of Securities of Panama, that establishes the obligation to comply with the capital adequacy standards, solvency ratio, capital fund, liquidity index, concentration of credit risk and overheads.
- Global Bank Overseas, Ltd. a Bank incorporated under the laws of Companies of Montserrat, British West Indies in August 25, 2003, started operations in October, 2003. The entity is engaged in foreign banking business.

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements

For the years ended June 30, 2013 and 2012

(In balboas)

- Aseguradora Global, S.A., a Panamanian company incorporated on April 2003, was acquired by the Bank on December 2004, mainly engaged in subscription and issuance of all risks insurance policies to third parties. The operation of Aseguradora Global, S.A. are regulated by the Superintendency of Insurance and Reinsurance of Panama in accordance with the rules established by Law No. 12 of April 3, 2012.
- Durale Holdings S. A., a Panamanian company incorporated on January 2006, mainly engaged in real estate business.
- Inmobiliaria Arga, S. A., Panamanian company incorporated on December 2009, mainly engaged in real estate business.

In the Republic of Panama, the banks are regulated by the Superintendency of Banks of Panama, through Executive Decree No. 52 of April 30, 2008, adopting its sole text from Decree Law 9 of February 26, 1998, amended by Decree Law No. 2 of February 22, 2008, as well as by Resolutions and Agreements issued by this entity. Among the principal aspects of this law are the following: authorization of bank licenses, minimum requirements of capital and liquidity, consolidated supervision, procedures for management of credit and market risks, prevention of money laundering and procedures of bank intervention and liquidation and others. Also, the banks will be subject, at least, to an inspection every two (2) years performed by the auditors of the Superintendency of Banks of Panama to determine the fulfillment of the dispositions of Executive Decree No. 52 of April 30, 2008, and Law No.42 of October 2, 2000 related to the prevention of money laundering.

2. Application of International Financial Reporting Standards (IFRS)

2.1 Standards and Interpretations with no effects on the consolidated financial statements adopted

Amendments to IAS 1 – Presentation of items in Other Comprehensive Income

Amendments to IAS 1 retain the option to present profit or loss and other comprehensive income, either in a single statement or in two separate statement, but consecutive. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section so that the items of other comprehensive income are grouped into two categories: (a) items that are not subsequently reclassified to profit and loss, and (b) items that are subsequently reclassified to profit and loss when certain conditions are met. It requires that income tax on items of other comprehensive income are allocated on the same basis. Amendments to IAS 1 were effective for annual periods beginning on or after July 1, 2012.

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Amendments to IAS 12- Deferred tax: Recovery of underlying assets

Amendments to IAS 12 provides an exception to the general principles established in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences arisen from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 *Investment Property* is expected to be recovered through the sale for purposes of measuring deferred tax, unless the presumption is rebutted in certain circumstances.

2.2 IFRS news and revised issued but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after June 30, 2013 and have not been applied in preparing these consolidated financial statements. It is not expected that any of them have a significant effect on the consolidated financial statements, except for the following listed below. However, it is not practicable to provide a reasonable estimate of its effect until a detailed review has been completed.

IFRS 9 - Financial Instruments: Classification and Measurement

IFRS 9 Financial Instruments issued on November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 modified on October 2010 include requirements for the classification and measurement of financial liabilities, such as requirements for derecognition.

The fundamental requirements by IFRS 9 are described as follow:

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

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The most significant effect of IFRS 9 addresses the classification and measurement of financial liabilities related to the accounting for changes in fair value of a financial liability (designated at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated at fair value through profit or loss, the amount of change in fair value of the financial liability that is attributable to changes in credit risk is recognized in other comprehensive income, unless the recognition of changes in the liability's credit risk in other comprehensive income would cause or increase an accounting mismatch in profit or loss: Changes in fair value attributable to credit risk of a financial liability are reclassified subsequently to profit or loss. Previously, under IAS 39, the total amount of change in fair value of financial liabilities designated at fair value through profit or loss is recognized in the consolidated statement of comprehensive income.

IFRS 9 effective for annually periods beginning in or after January 1, 2015.

IFRS 10 - Consolidated Financial Statement

IFRS 10 replaced the parts of IAS 27 - Consolidated and Separate Financial Statements dealing with the consolidated financial statements. Upon issuance of IFRS 10, SIC 12 Consolidation - Special Purpose Entities has been removed. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) the power through a receiving entity investment, (b) exposure or rights, to variable returns from its involvement with the recipient investment, and (c) the ability to use its power over the investee to affect the amount of investors profitability. Extensive guidance has been added to IFRS 10 to deal with complex scenarios.

IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 is a disclosure standard applicable to entities that have interests in subsidiaries, joint ventures, associates and/or unconsolidated structured entities. In general, the requirements of measurements in IFRS 12 are higher than those of the existing standards.

IFRS 13 - Fair Value Measurement

NIIF 13 establishes an only source of guidance for the fair value measurement and disclosures. The standard defines the fair value, establishes the framework for measurement, and requires disclosures about fair value measurement. The scope of IFRS 13 applies to the financial instrument and non-financial instruments for which other IFRS's require or permit fair value measurements and disclosures about fair value measurement, except in certain circumstances. In general, the disclosure requirements in IFRS 13 are broader than those required by current standards.

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IFRS 10, 12 and 13 are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all these standards will be applied concurrently.

3. Most significant accounting policies

3.1 Basis of presentation

The consolidated financial statements have been prepared under the historical cost basis, except investments available-for-sale and derivative instruments, which are stated at fair value.

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as they have been modified by prudential regulations issued by the Superintendency of Bank of Panama for monitoring purposes. With respect to the Bank, the most significant changes introduced by the prudential regulations that establish a different treatment to International Financial Reporting Standards relate to:

1. Measurement of impairment for possible loan losses - IAS 39.
2. Measurement of impairment for property acquired as compensation for outstanding claims - IFRS 5.
3. Classification and measurement of impairment of investment securities - IAS 39.

IAS 39 and IFRS 5 state that the reserve for possible loan losses is established on the basis of losses incurred while the regulation requires the determination of the reserve for expected losses.

The accounting policies adopted by the Bank in compliance with the agreements issued by the Superintendency of Bank of Panama are described in Note 3 to these consolidated financial statements.

3.2 Principle of consolidation

The consolidated financial statements include assets, liabilities, shareholder's equity and results of operations of Global Bank Corporation and the companies controlled by the Bank (its subsidiaries): Factor Global, Inc., Global Financial Funds Corporation, Global Capital Corporation, Global Capital Investment Corporation, Global Valores, S.A., Global Bank Overseas, Ltd., Aseguradora Global, S.A., Durale Holdings, S.A. and Inmobiliaria Arga, S.A.

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Control is obtained when the Bank has the power to govern the financial and operating policies of a company in which it maintains investment in order to obtain benefits from its activities. Subsidiaries are those entities in which the Bank has directly or indirectly more than 50% of the voting capital and/or exercises control.

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

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

3.3 *Functional currency*

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

3.4 *Segment reporting*

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

3.5 *Financial assets*

Financial assets are classified into the following specific categories: securities held to maturity, securities available-for-sale and loans. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. Financial assets at June 30 are the following:

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Financial assets held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and capacity to hold to maturity. If the Bank would sell a significant amount (in relation with the total amount of investments held to maturity) of the assets held to maturity, the entire category would have to be reclassified as available-for-sale. Assets held to maturity are recognized at amortized cost using the effective interest method less any impairment, with income being recognized on an effective rate basis. With effective date on December 27, 2012 these investments were reclassified to the category of securities available for sale (see Note 11).

Securities available-for-sale

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

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

Gains or losses arising from changes in fair value of securities available-for-sale are recognized directly in equity until the financial assets are disposed or impairment is determined. At this time, the cumulative gain or loss, previously recognized in equity is recognized in the results.

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

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

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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 entity will expect to sell immediately or on a short term, which are classified as trading, and those that the entity in its initial recognition designates at fair value through profit or loss, (b) those that the entity upon initial recognition designates as available-for-sale, or (c) those for which the holder do not recover substantially all of its initial investment, unless due to credit deterioration.

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

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to receive cash flows have expired or when the Bank has transferred financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank does not transfer or retain substantially all the risks and benefits of ownership and control continues with the asset transferred, the Bank recognizes its retained interest in the assets and liabilities related to the amounts that it may have to pay. If the Bank retains substantially all risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a liability secured by the amount received.

3.6 *Financial liabilities and equity instruments issued by the Bank*

Classification as debt or equity

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

Equity instruments

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

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Liabilities from financial guarantee contracts

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

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

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

Borrowed funds

Borrowed funds are recognized initially at fair value net of transaction cost incurred. Subsequently, borrowed funds are stated at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in the consolidated statement of profit or loss over the period of the borrowing using the effective interest method.

Other financial liabilities

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

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Derecognition of financial liabilities

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

Dividends

Dividends on common shares are recognized in equity in the period in which they were approved by the Board.

3.7 *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 enforced, to offset the recognized amounts of such instruments, as well as the intention to liquidate the net amount, or to realize the asset and pay the liability simultaneously.

3.8 *Income and interest expense*

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

3.9 *Commission income*

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

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3.10 Impairment of financial assets

Loans

Loans receivable are presented deducted from the allowance for possible loans losses on the consolidated statement of financial position. When a loan is determined as uncollectible, the unrecoverable amount is charged to that allowance account. Recoveries of loans previously written off as uncollectible are credited to the reserve account.

The Superintendency of Banks of Panama requires that financial statements presented by banks in Panama, including annual and interim financial statements, must include the accounting recognition and presentation of allowance for loan losses based on prudential rules for the creation of such allowance issued by the regulator. Based on the rules of the regulator, Agreement 6-2000 issued by the Superintendency of Banks of the Republic of Panama, the Bank classifies loans into five risk categories and determines the minimum amount of allowance for losses on the principal balance as follows:

| <u>Loan Categories</u> | <u>Minimum percentages</u> |
|------------------------|----------------------------|
| Normal | 0% |
| Special mention | 2% |
| Subnormal | 15% |
| Doubtful | 50% |
| Uncollectible | 100% |

For this purpose, a criterion was used for the classification such as the quality of the loan and default parameters to service debt, among others. The criterion for default periods is mainly used to classify consumer and housing loans, but is also considered in the classification of corporate lending.

Additionally, within a period not exceeding 90 days, the Bank shall adjust the previous classification of loans and constitute new specific provisions, if applicable, depending on the estimated losses, as follows:

| <u>Loan categories</u> | <u>Minimum percentages</u> |
|------------------------|----------------------------|
| Special Mention | 2% up to 14.9% |
| Subnormal | 15% up to 49.9% |
| Doubtful | 50% up to 99.9% |
| Uncollectible | 100% |

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When calculating the estimated losses, the Bank, among others, considers the debtor's financial statements, operating cash flows, realization value of real guarantees, and any other cash flow that would be obtain from co-debtors or guarantors. For the consumer portfolio, the following are considered: the debtor's delinquency, the losses that the Bank has historically experienced in the past in similar or comparable groups, the maturity profile of the portfolio and any other information that might affect the collection of the consumer portfolio.

In addition, Agreement 6-2000 allows the creation of general reserves for loan losses provisionally, when there is knowledge of the deterioration in the value of a group of loans that have defined common features and that have not attributable to loans individually.

At any time, Banks are required to maintain a global reserve for loan losses of not less than 1% of its total loan portfolio, less the deposit guarantees at the same bank. This global reserve shall not be less than the sum of the specific and general reserves.

The Superintendency of Banks of Panama may assess the sufficiency of allowance and require the Bank to constitute allowance at any time.

Securities held to maturity

At the date of the consolidated statement of financial position it is assessed whether there is objective evidence that a financial asset or group of financial assets is impaired. The Bank determines the impairment of securities held to maturity, considering the following aspects:

- Decrease of credit rating by a local or international rating agency;
- The fair value becomes significantly less than the cost;
- Decrease in fair value for a long period of time (more than a year);
- Deterioration of the condition of the industry or geographical area;
- Reduced ability to continue as a going concern.

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Securities classified as available-for-sale

At the date of the consolidated statement of financial position, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity and debt instruments classified as available-for-sale, a significant or prolonged decline in fair value of the financial asset that is below its cost is considered in determining whether the financial asset is impaired. If such evidence exists for financial assets available-for-sale, the accumulated loss measured as the difference between acquisition cost and current fair value, less any impairment loss in the previously recognized financial assets, in profit or loss, is removed from equity and recognized in the consolidated statement of profit or loss.

Impairment losses recognized in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss, but its amount is recognized in the equity account. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increase and this increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is recognized through the consolidated statement of profit or loss.

3.11 Securities purchased under resale agreements

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

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

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3.12 Leases receivable

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

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

3.13 Property, furniture, equipment and improvements

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

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

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

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

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

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3.14 Foreclosed assets

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

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

For regulatory purposes, the Superintendency of Banks of Panama set at five (5) years, from the date of registration in the Public Register, the deadline to dispose of foreclosed real estate acquired. If after this period, the Bank has not sold the property acquired, an independent appraisal should be done to determine if it has declined in value, applying the provisions of IFRS, it means the lower between the cost of sale and book value.

Likewise, the Bank must create an allowance in the equity account, through the appropriation in the following order: a) its retained earnings, b) profit or loss, which should be charged the following to the amount of foreclosed assets:

- First year: 10%
- Second year: 20%
- Third year: 35%
- Fourth year: 15%
- Fifth year: 10%

The above allowance will remain until the effective transfer of the property acquired is made; the reserve will not be considered as regulatory allowance for purposes of calculating the capital ratio.

3.15 Goodwill

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

Gains and losses on a disposition include carrying value of goodwill of the entity sold. Goodwill is allocated to cash generating units for the purpose of assessing impairment.

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3.16 Impairment of non-financial assets

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

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

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

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

At June 30, 2013, Management had not identified impairment loss of its non-financial assets.

3.17 Securities sold under repurchase agreements

Securities sold under repurchase agreements generally are accounted as short-term financing transactions guaranteed with securities, and are recorded for the amount in which the securities were sold plus accumulated interest.

The Bank evaluates the market value of securities sold under repurchase agreements and release the guarantees to the counterparties where appropriate.

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3.18 Employee benefits

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

3.19 Income tax

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

Deferred income tax is calculated based on the liability method taking into account the temporary differences between carrying values of asset and liabilities for financial and fiscal purposes. The amount of deferred income tax is based on the realization of assets and liabilities using the applicable tax rate at the date of consolidated statement of financial position. These temporary differences are expected to be reserved in future periods.

3.20 Trust operations

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

3.21 Embedded derivatives

Derivatives may be embedded in other contractual arrangements, such as securities available-for-sale and held to maturity (the host contract) when their economic characteristics and risks are not closely related to the host contract and the host contract is not carried at fair value through profit and loss. These embedded derivatives are accounted for separately at fair value and changes in fair value are recognized in the consolidated statement of profit or loss.

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These embedded derivatives are presented in the consolidated statement of financial position together with the host contract.

3.22 Hedging derivatives

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

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

- (a) Hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges);
- (b) Hedges of highly probable future cash flows attributable to a recognized asset or liability or a forecasted transaction (cash flow hedges).

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

Fair value hedge

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

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

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hedged asset, resulting from the hedged risk and the present value of estimated cash flows discounted at an adjusted effective yield basis.

Cash flows hedge

Derivative instruments under cash flow method are hedging risks caused by fluctuations in cash flows that are attributable to a particular risk of an asset or liability recognized in the consolidated statement of financial position and affecting the bottom line. Changes in the valuation of hedging under the cash flow method for the effective portion is recorded to equity and the ineffective portion are recognized in the consolidated profit or loss.

Amounts accumulated in equity are recycled to the consolidated statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the revenue or expense lines in which associated with the related hedged item is reported.

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

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

The fair values of derivatives used for hedging purposes are described in Note 21.

3.23 Cash equivalents

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

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3.24 Comparative information

At June 30, 2012 has been reclassified to conform their presentation to the consolidated financial statements at June 30, 2013.

4. Financial risk administration

4.1 Objectives of Financial Risk Management

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

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

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

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

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

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

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

4.2 Credit risk

Credit risk is the risk of a financial loss for the Bank that may take place if a client or a counterparty of a financial instrument fails to meet their contractual obligations arising mainly on loans to clients and investment 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 periodically monitor the financial condition of the debtors and issuers of negotiable instruments that involve a credit risk for the Bank.

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

Issuance of Credit Policies:

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

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

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

Establishment of Authorization Limits:

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

Exposure Limits:

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

Concentration Limits:

To limit concentration per activity or industry, exposure limits have been approved based on capital distribution and the strategic orientation set for the loan portfolio.

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

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Counterparty Maximum Limits:

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

Review of Compliance Policies:

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

Impairment and provisioning policies

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

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In the previous table, the major risk exposure factors and information of impaired assets have been detailed, and the assumptions used for such disclosures are as follows:

- *Impairment on loans* - The impairment on loans is determined considering the principal and interests, based on contractual terms.
- *Renegotiated loans* - Renegotiated loans are those that have been restructured due to impairment in the financial condition of the debtor and when the Bank considers granting change in the original credit terms. These loans once restructured are kept in this category regardless of any improvement in the financial condition of the debtor after restructuration by the Bank.
- *Allowance for impairment* - Allowance for impairment have been established based on estimated loss expected in the loan portfolio. The main components of the allowance are related to individual risks and the allowance for loan losses collectively established.
- *Write-off policy* - Loans are charged to losses when they are determined uncollectible. This determination is taken after considering into account factors as: payment capacity of the debtor; insufficiency of guarantee or is not appropriate constituted; or when all resources to recover the credit in the collection management have been realized.

The Bank holds collaterals of loans to customers for mortgages on properties and other guarantees. The fair value estimates are based on the value of the collateral according to the loan period and are generally not updated unless the credit is deteriorating on an individual basis. Generally, the collateral is not linked to loans made, except when the investments held are part of a security purchased under resale agreements and securities under repurchase agreements are also considered on investments.

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The following schedule shows an analysis of the gross and net amount of allowances for impairment of the loan portfolio due to risk assessment:

| | 2013 | Carrying value | Allowances | Net amount |
|---|-------------|-----------------------|-------------------|-------------------|
| Normal | | 2,860,794,979 | - | 2,860,794,979 |
| Special mention | | 54,982,845 | 3,620,295 | 51,362,550 |
| Subnormal | | 24,447,871 | 3,677,944 | 20,769,927 |
| Doubtful | | 19,636,272 | 4,485,333 | 15,150,939 |
| Uncollectible | | 950,097 | 950,097 | - |
| | | 2,960,812,064 | 12,733,669 | 2,948,078,395 |
| Less: | | | | |
| Global allowance | | - | 14,755,773 | (14,755,773) |
| Generic allowance | | - | 14,219,058 | (14,219,058) |
| | | 2,960,812,064 | 41,708,500 | 2,919,103,564 |
| Less: unearned interest and commissions | | | | (16,335,857) |
| Total | | | | 2,902,767,707 |
| | 2012 | Carrying value | Allowances | Net amount |
| Normal | | 2,449,329,270 | - | 2,449,329,270 |
| Special mention | | 36,650,911 | 3,972,969 | 32,677,942 |
| Subnormal | | 25,089,196 | 3,651,283 | 21,437,913 |
| Doubtful | | 14,187,418 | 5,501,866 | 8,685,552 |
| Uncollectible | | 1,940,080 | 1,939,230 | 850 |
| | | 2,527,196,875 | 15,065,348 | 2,512,131,527 |
| Less: | | | | |
| Global allowance | | - | 8,441,832 | (8,441,832) |
| Generic allowance | | - | 15,489,046 | (15,489,046) |
| | | 2,527,196,875 | 38,996,226 | 2,488,200,649 |
| Less: unearned interest and commissions | | | | (12,838,411) |
| Total | | | | 2,475,362,238 |

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The fair value estimated of guarantees is follows:

| | 2013 | 2012 |
|---------------------------|-------------------|-------------------|
| Fixed assets | 405,016,723 | 361,008,061 |
| Real estate | 2,508,579,321 | 2,220,774,387 |
| Deposits in the same bank | 233,016,286 | 199,155,042 |
| Investment securities | 93,504,265 | 83,366,467 |
| Others | 40,549,673 | 43,990,593 |
| Total | 3,280,666,268 | 2,908,294,550 |

Restructured loans

Restructuring activities include payment, arrangements approved external management plans and the repayment plan modified. The restructuring policies and practices are based on indicators or a criterion that, according to management's judgment, indicates that repayment will probably continue. These policies are under constant review.

At June 30, 2013 and 2012, renegotiated loans that would otherwise be past due or impaired, amounts to B/.16,860,459 and B/.13,827,035, respectively.

| | 2013 | 2012 |
|-------------------|----------------|----------------|
| <i>Consumer:</i> | | |
| Individual | 5,238,779 | 4,019,918 |
| Mortgage | 3,511,549 | 852,809 |
| <i>Corporate:</i> | | |
| Commercial | 8,110,131 | 8,954,308 |
| Total | 16,860,459 | 13,827,035 |

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The following detail analyzes the investment portfolio of the Bank that is exposed to credit risk and its assessment based on its rating grade:

| 2013 | Securities available <u>for sale</u> | Investment held to <u>maturity</u> | Total |
|---------------------|---|---|---------------------------|
| Investment grade | 166,651,138 | - | 166,651,138 |
| Standard monitoring | 14,311,110 | - | 14,311,110 |
| Ungraded | 90,631,281 | - | 90,631,281 |
| Total | <u>271,593,529</u> | - | <u>271,593,529</u> |
| 2012 | Securities available <u>for sale</u> | Investment held to <u>maturity</u> | Total |
| Investment grade | 115,623,394 | 230,519,557 | 346,142,951 |
| Standard monitoring | 3,560,626 | 7,948,635 | 11,509,261 |
| Ungraded | 15,537,072 | 25,842,500 | 41,379,572 |
| Total | <u>134,721,092</u> | <u>264,310,692</u> | <u>399,031,784</u> |

In the preceding table, the factors of major risk exposure of the investment portfolio have been detailed.

To manage the financial risk exposures of the investment portfolio, the Bank uses the assessment of the external rating agencies, as detailed as follows:

| <u>Description of the grade</u> | <u>External qualification</u> |
|---------------------------------|--|
| Investment grade | AAA, AA+, AA-, A+, A-, BBB+, BBB, BBB- |
| Standard monitoring | BB +, BB, BB-, B+, B, B- |
| Special monitoring | CCC to C |
| Ungraded | - |

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The Bank monitors the credit risk concentration by sector and geographic location. The analysis of the credit risk concentration at the date of the consolidated statement of financial position is the following:

| | Loans | | Investments | |
|-------------------------------------|----------------------|----------------------|--------------------|--------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Concentration by sector: | | | | |
| Corporate | 1,926,993,495 | 1,657,451,357 | - | - |
| Consumer | 970,119,423 | 821,884,863 | - | - |
| Investment securities | - | | 271,593,529 | 399,031,784 |
| Others | 63,699,146 | 47,860,655 | 5,497,680 | 1,044,500 |
| | <u>2,960,812,064</u> | <u>2,527,196,875</u> | <u>277,091,209</u> | <u>400,076,284</u> |
| Geographical concentration | | | | |
| Panama | 2,769,420,356 | 2,394,218,021 | 108,245,351 | 98,072,514 |
| Latin America and Caribbean | 191,391,708 | 128,846,448 | 97,377,582 | 147,114,357 |
| Europe, Asia and Oceania | - | - | 36,459,442 | 93,321,711 |
| United States of America and others | - | 4,132,406 | 35,008,654 | 61,567,702 |
| | <u>2,960,812,064</u> | <u>2,527,196,875</u> | <u>277,091,029</u> | <u>400,076,284</u> |

Concentration by sector, items from other loans comprised to credit facilities to banks, cooperatives, insurance companies, financial companies, government, international agencies and non for profit organization.

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

4.3 *Liquidity or financing risk*

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

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

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The Panamanian Banking Regulation requires that the banks maintain a general license at all times with a minimum balance of liquid assets, as defined in Agreement 4-2008 of the Superintendency of Banks of Panama, no less than 30% of their deposits, but due to the severe liquidity policies to cover their operating liabilities, the liquidity of the Bank based on this standard was 49.13% as of June 30, 2013 and 47.98% as of June 30, 2012.

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

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

| | 2013 | 2012 |
|---------------------------|---------------|---------------|
| At June 30 closing | 49.13% | 47.98% |
| Average for the period | 43.76% | 49.89% |
| Maximum for the period | 49.19% | 56.06% |
| Minimun for the period | 38.22% | 40.43% |

The following table shows the undiscounted cash flows of the financial liabilities of the Bank and the loan commitments and other liabilities base on the remaining contractual maturity. The expected flows of these instruments may vary significantly as a result of this analysis:

| 2013 | <u>Carrying value</u> | <u>Undiscounted cash flows</u> | <u>Up to 1 year</u> | <u>From 1 to 3 years</u> | <u>From 3 to 5 years</u> | <u>More than 5 years</u> |
|-------------------------|---------------------------|------------------------------------|-------------------------|------------------------------|------------------------------|------------------------------|
| Deposits | 2,634,887,553 | 2,808,197,327 | 1,981,863,507 | 510,431,795 | 252,097,779 | 63,804,245 |
| Borrowed funds | 290,113,306 | 336,771,849 | 204,961,819 | 77,251,698 | 20,841,798 | 33,716,535 |
| Commercial paper | 59,074,000 | 59,900,195 | 59,900,195 | - | - | - |
| Corporate bonds payable | 325,103,129 | 410,338,395 | 19,635,853 | 42,451,705 | 296,417,504 | 51,833,333 |
| Convertible bonds | 10,000,000 | 10,750,000 | 500,000 | 10,250,000 | - | - |
| Subordinated bonds | 90,020,000 | 437,384,675 | 6,076,350 | 12,152,700 | 12,152,700 | 407,002,925 |
| | <u>3,409,197,988</u> | <u>4,063,342,441</u> | <u>2,272,937,724</u> | <u>652,537,898</u> | <u>581,509,781</u> | <u>556,357,038</u> |

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| 2012 | Carrying <u>value</u> | Undiscounted <u>cash flows</u> | Up to 1 <u>year</u> | From 1 to 3 <u>years</u> | From 3 to 5 <u>years</u> | More than 5 <u>years</u> |
|-------------------------|--------------------------|-----------------------------------|------------------------|-----------------------------|-----------------------------|-----------------------------|
| Deposits | 2,295,375,458 | 2,392,354,416 | 1,666,532,039 | 399,940,545 | 290,356,602 | 35,525,230 |
| Repurchase agreements | 29,915,818 | 29,958,822 | 29,958,822 | - | - | - |
| Borrowed funds | 436,774,465 | 467,273,550 | 297,328,199 | 74,020,001 | 77,971,632 | 17,953,718 |
| Commercial paper | 85,340,000 | 86,759,296 | 86,759,296 | - | - | - |
| Corporate bonds payable | 121,342,000 | 158,591,454 | 6,511,245 | 25,797,490 | 17,879,386 | 108,403,333 |
| Convertible bonds | 10,000,000 | 11,250,000 | 500,000 | 10,750,000 | - | - |
| Subordinated bonds | 90,020,000 | 443,461,025 | 6,076,350 | 12,152,700 | 12,152,700 | 413,079,275 |
| | <u>3,068,767,741</u> | <u>3,589,648,563</u> | <u>2,093,665,951</u> | <u>522,660,736</u> | <u>398,360,320</u> | <u>574,961,556</u> |

To manage liquidity risk arising from financial liabilities, the Bank maintains effective liquid assets such as: cash and equivalents and investments with investment grade for which there is an active market. 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 enable the nature and extent of liquidity risk.

4.4 Market risk

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

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

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

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

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

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

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

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

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

| 2013 | | | | | No interest rate | Total |
|-----------------------------------|-------------------|-----------------------|-----------------|----------------------|------------------------|---------------|
| | Up to 6 months | 6 months to 1 year | 1 to 5 years | More than 5 years | | |
| Financial assets: | | | | | | |
| Cash and due from banks | 377,348,270 | 2,180,000 | - | - | 108,811,793 | 488,340,063 |
| Securities under resale agreement | 3,483,174 | 2,014,506 | - | - | - | 5,497,680 |
| Securities available for sale | 17,812,892 | - | 79,968,715 | 156,691,204 | 17,120,718 | 271,593,529 |
| Loans | 2,468,481,977 | 7,353,108 | 100,780,121 | 384,196,858 | - | 2,960,812,064 |
| Total financial assets | 2,867,126,313 | 11,547,614 | 180,748,836 | 540,888,062 | 125,932,511 | 3,726,243,336 |
| Financial liabilities: | | | | | | |
| Due to depositors | 1,138,086,698 | 381,943,328 | 683,097,577 | 42,464,114 | 389,295,836 | 2,634,887,553 |
| Borrowed funds | 290,113,306 | - | - | - | - | 290,113,306 |
| Commercial papers | 34,691,000 | 24,383,000 | - | - | - | 59,074,000 |
| Corporate bonds | 189,664,129 | 3,000,000 | 82,439,000 | 50,000,000 | - | 325,103,129 |
| Convertible bonds | - | - | 10,000,000 | - | - | 10,000,000 |
| Subordinated funds | - | - | - | 90,020,000 | - | 90,020,000 |
| Total financial assets | 1,652,555,133 | 409,326,328 | 775,536,577 | 182,484,114 | 389,295,836 | 3,409,197,988 |
| Commitments and contingencies | - | - | - | - | 755,649,182 | 755,649,182 |

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The analysis on a monthly basis by management is to determine the net impact on the financial instruments subject to market risk, taking into account the specific effects caused by increases and decreases of 100 basis points in interest rates. The results of these simulations are presented monthly in the asset liability committee (ALCO) to determine if the financial instruments of the Bank's portfolio are within acceptable risk parameters by management.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

| | 2013 | |
|------------------------------------|------------------------------|------------------------------|
| | Increase of 100bp | Decrease of 100bp |
| Investment securities | (12,154,726) | 13,021,177 |
| Loans | (6,388,920) | 6,781,028 |
| Time deposits | 10,277,989 | (10,588,210) |
| Borrowed funds | 2,576,121 | (2,661,306) |
| Negotiable commercial papers | 241,418 | (233,631) |
| Corporate bonds | 5,449,878 | (5,717,120) |
| Convertible and subordinated bonds | <u>11,625,634</u> | <u>(15,220,879)</u> |
| Net impact | <u>11,627,394</u> | <u>(14,618,941)</u> |

| | 2012 | |
|------------------------------------|------------------------------|------------------------------|
| | Increase of 100bp | Decrease of 100bp |
| Investment securities | (20,820,735) | 22,584,255 |
| Loans | (5,314,496) | 5,635,507 |
| Time deposits | 9,918,889 | (10,228,225) |
| Borrowed funds | 3,767,782 | (3,908,825) |
| Negotiable commercial papers | 396,464 | (387,438) |
| Corporate bonds | 5,767,180 | (6,104,150) |
| Convertible and subordinated bonds | <u>11,724,571</u> | <u>(15,345,946)</u> |
| Net impact | <u>5,439,655</u> | <u>(7,754,822)</u> |

4.5 *Operational risk*

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

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

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

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

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

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

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

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

4.6 Capital management

The Bank manages its capital to ensure:

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

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

The adequacy of capital and the use of regulatory capital are monitored by the Bank's management based on guidelines and techniques developed by the Superintendency of Bank of Panama. The information requirements are sent to the regulator on a quarterly basis.

The Bank reviews its regulatory capital by applying the Superintendency of Banks of Panama standards, as per Agreements 5-2008 of October 1, 2008, modified with Agreement 4-2009 of June 9, 2009, where are established capital rules for credit risk.

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

Based on regulatory scheme, paid-in capital requirements are measured as follows:

- *Primary capital* - Includes paid-in capital, declared reserves and retained earnings. Paid-in capital is represented by common and non-accumulative preferred stocks issued and fully paid. Declared reserves are those identified as such by the Bank arising from accumulated earnings maintained to reinforce its financial situation.

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- Retained earnings are undistributed earnings in the fiscal period and accumulated from prior periods.
- *Secondary capital* - Includes hybrid capital and debt instruments, subordinated debt, general allowances for losses, undeclared reserves and asset revaluation reserves.

Banks with General License must calculate on a quarterly basis its Capital adequacy by taking into account the following deductions:

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

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The Bank maintains a regulatory capital position comprised in the following manner:

| | Notes | 2013 | 2012 |
|--|-------|----------------------|----------------------|
| Primary capital (Tier 1) | | | |
| Common shares | 23 | 78,202,657 | 78,202,657 |
| Retained earnings | | 188,102,126 | 134,274,254 |
| Less: goodwill | | (8,355,187) | (8,355,187) |
| Capital reserve | | <u>29,553,472</u> | <u>21,184,987</u> |
| Total | | <u>287,503,068</u> | <u>225,306,711</u> |
| Secondary Capital (Tier 2) | | | |
| Subordinated debt convertible into common shares | | 10,000,000 | 10,000,000 |
| Subordinated debt | | 90,020,000 | 90,020,000 |
| Undeclared reserves | | 8,583 | 79,313 |
| Generic reserves for loan | | <u>14,219,058</u> | <u>15,489,046</u> |
| Totals | | <u>114,247,641</u> | <u>115,588,359</u> |
| Total regulatory capital | | <u>401,750,709</u> | <u>340,895,070</u> |
| Risk weighted assets | | | |
| Cash and due from banks | | | |
| Investments securities | | 75,905,654 | 57,731,987 |
| Loans | | 142,324,885 | 118,926,551 |
| Property, furniture, equipment and improvements | | 2,267,766,040 | 1,871,645,483 |
| Other assets | | 48,736,297 | 41,621,434 |
| Off-balance sheet items | | 97,427,155 | 89,238,971 |
| Allowance for possible loan losses | | 105,383,715 | 112,570,029 |
| Total risk weighted assets | | <u>(27,489,442)</u> | <u>(23,507,180)</u> |
| | | <u>2,710,054,304</u> | <u>2,268,227,275</u> |
| Capital adequacy | | | |
| Total regulatory capital over risk weighted assets | | <u>14.82%</u> | <u>15.03%</u> |
| Total Tier 1 over risk weighted assets | | <u>10.61%</u> | <u>9.93%</u> |

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5. Accounting estimates and critical judgments

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

- (a) *Impairment losses on loans* - The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.
- (b) *Impairment of investments available-for-sale* - The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in stock price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

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6. Fair value of financial instruments

The Bank's management has used the following assumptions to estimate fair value for each financial instrument category in the consolidated statement of financial position:

- *Due from bank demand and time* - The carrying value approximates to fair value due to their short term maturities.
- *Securities purchased under resale agreements* - Carrying value approximates its fair value due to its short-term nature.
- *Investment securities* - Fair value is based on listed or quoted market prices or broker 'quotes for these securities. If a reliable quoted market price is not available, the fair value of the instrument is estimated using pricing calculation models or discounted cash flow techniques.
- *Loans* - The loan portfolio is adjusted by an allowance for possible loan losses, so its carrying amounts approximate their estimated recovery value. In addition, the Bank has loans receivable whose interest rates approximate to the prevailing interest rates in the market for loans with similar terms and conditions. The fair value is determined using discounted cash flow, discounted with observable market rate.
- *Due from bank demand and savings* - The carrying value approximates its fair value due to their short-term maturities.
- *Due to depositors - time deposits* - Fair value is based on discounted cash flows using market interest rates for financing new debts with similar remaining maturities.
- *Securities sold under repurchase agreements, borrowed funds, negotiable commercial papers and bonds payable* - The carrying values of securities sold under repurchase agreement, borrowed funds, commercial papers and bonds payable with maturities less than a year, approximate to their fair value due to their short-term nature. For obligations with maturities greater than a year, fair value is determined by using discounted cash flows at the actual market interest rate.
- *Hedge derivatives* - The fair value of derivative financial instruments is estimated using internal valuation model with observed market data.

These estimates are subjective in nature and involve uncertainties and matters of critical elements of judgment, and therefore cannot be determined accurately. Changes in assumptions or criteria could significantly affect the estimates.

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The carrying amount and fair value of the main assets and liabilities that are not presented at fair value in the consolidated statement of financial position of the Bank are summarized below:

| | 2013 | 2012 | | |
|--|-----------------------|----------------------|-----------------------|----------------------|
| | <u>Carrying value</u> | <u>Fair value</u> | <u>Carrying value</u> | <u>Fair value</u> |
| Assets | | | | |
| Cash and due from banks | 108,811,793 | 108,811,793 | 85,867,981 | 85,867,981 |
| Time deposits | 379,528,270 | 379,528,270 | 288,659,936 | 288,659,936 |
| Securities purchased under resale agreements | 5,497,680 | 5,497,680 | 1,044,500 | 1,044,500 |
| Securities held to maturity | - | - | 264,310,692 | 280,878,619 |
| Loans, net | <u>2,902,767,707</u> | <u>2,925,075,474</u> | <u>2,475,362,238</u> | <u>2,495,436,608</u> |
| Total financial assets | <u>3,396,605,450</u> | <u>3,418,913,217</u> | <u>3,115,245,347</u> | <u>3,151,887,644</u> |
| Liabilities | | | | |
| Due to customers - demand | 389,295,836 | 389,295,836 | 313,122,506 | 313,122,506 |
| Saving deposits | 488,682,092 | 488,682,092 | 452,306,050 | 452,306,051 |
| Due to customers - time deposits | 1,756,909,625 | 1,799,007,660 | 1,529,946,902 | 1,575,802,763 |
| Repurchase agreement | - | - | 29,915,818 | 29,915,818 |
| Borrowed funds | 290,113,306 | 291,651,161 | 436,774,465 | 437,802,904 |
| Commercial papers | 59,074,000 | 59,202,454 | 85,340,000 | 85,684,876 |
| Bonds payable | 325,103,129 | 337,253,000 | 121,342,000 | 121,342,000 |
| Convertible bonds | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 |
| Subordinated bonds | 90,020,000 | 90,020,000 | 90,020,000 | 90,020,000 |
| Total financial liabilities | <u>3,409,197,988</u> | <u>3,465,112,203</u> | <u>3,068,767,741</u> | <u>3,115,996,918</u> |

IFRS 7 specifies a hierarchy of valuation techniques based on whether the information contained in these valuation techniques are observable or non-observable. The observable information reflects market data obtained from independent sources; the non-observable information reflects the Bank's market assumptions. These two types of information have created the following fair value hierarchy:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and debt instruments in the stock exchange and markets of derivatives, as well as futures.
- **Level 2** - information other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derivatives of prices).

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- **Level 3** - Information for the assets and liabilities that are not based on observable market data (non-observable information). This level includes investments in shares and debt instruments with significant non-observable components.

| | 2013 | Measurement used | | |
|----------------------------------|-------------|------------------|------------|------------|
| | | Total | Level 1 | Level 2 |
| Financial assets: | | | | |
| Securities available for sale | 271,593,529 | 155,874,702 | 53,362,725 | 62,356,102 |
| Financial liabilities: | | | | |
| Derivative - interest rate swaps | 3,987,937 | - | 3,987,937 | - |
| | 2012 | Measurement used | | |
| | | Total | Level 1 | Level 2 |
| Financial assets: | | | | |
| Securities available for sale | 134,721,092 | 73,375,847 | 57,561,299 | 3,783,946 |
| Financial liabilities: | | | | |
| Derivative - interest rate swaps | 163,906 | - | 163,906 | - |

The movement of investment available-for-sale Level 3 is as follows:

| | 2013 | 2012 |
|--------------------------------------|-------------|-----------|
| Balance at beginning of year | 3,783,946 | 3,274,943 |
| Additions | 35,736,392 | - |
| Reclassifications | 24,357,565 | - |
| Net change in securities redemptions | (1,494,214) | 912,205 |
| Sales and redemption | (27,587) | (403,202) |
| Balance at end of year | 62,356,102 | 3,783,946 |

At June 30, 2013, the Bank reclassified investment held to maturity to available for sale securities categorized as level 3 (See Note 10).

At June 30, 2013 and 2012, securities available-for-sale at Level 3 of B/.1,315,698 and B/.1,657,076, respectively, have been recorded at cost. Bank management believes that the acquisition cost approximates to fair value. On the other hand, other investments at Level 3 of B/.61,040,404 and B/.2,126,870 as of June 30, 2013 and 2012, are recorded at fair value.

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7. Balances and transactions with related parties

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

| | 2013 | 2012 |
|--|-------------------|-------------------|
| <i>Operations with related companies</i> | | |
| Balances with related parties | | |
| <i>Assets</i> | | |
| Loans | 38,833,919 | 38,748,302 |
| Accrued interests receivable | <u>135,286</u> | <u>143,000</u> |
| Other assets - accounts receivable | <u>6,815,212</u> | <u>7,166,282</u> |
| <i>Liabilities</i> | | |
| Due to clients - demand | <u>15,175,794</u> | <u>14,252,816</u> |
| Due to clients - savings | <u>2,022,913</u> | <u>2,485,059</u> |
| Due to clients - time | <u>34,855,391</u> | <u>37,616,681</u> |
| Accrued interests payable | <u>121,301</u> | <u>129,412</u> |
| <i>Commitment and contingencies</i> | <u>12,168,000</u> | <u>16,178,323</u> |
| Transactions with related parties | 2013 | 2012 |
| <i>Income and expenses</i> | | |
| Interest income | <u>3,524,370</u> | <u>3,227,234</u> |
| Interest expenses | <u>1,668,334</u> | <u>1,181,327</u> |

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| | 2013 | 2012 |
|---|-------------------|-------------------|
| <i>Operations with directors and key management staff</i> | | |
| Balance with related parties | | |
| <i>Assets</i> | | |
| Loans | 5,125,423 | 5,057,048 |
| Accrued interests receivable | <u>13,643</u> | <u>24,656</u> |
| <i>Liabilities</i> | | |
| Due to clients - demand | 4,331,747 | 1,660,239 |
| Due to clients - savings | <u>2,795,829</u> | <u>1,456,870</u> |
| Due to clients - time | <u>76,435,441</u> | <u>78,863,553</u> |
| Accrued interests payable | <u>227,091</u> | <u>385,390</u> |
| <i>Commitments and contingencies</i> | <u>1,385,000</u> | <u>1,203,234</u> |
| Transactions with related parties | | |
| <i>Income and expenses</i> | | |
| Interest income | 320,770 | 281,863 |
| Interest expense | <u>1,968,078</u> | <u>1,748,191</u> |
| <i>Key management employee benefits</i> | 2013 | 2012 |
| Salaries | 2,127,492 | 2,006,442 |
| Participation in net income | 1,053,390 | 894,293 |
| Directors' fees | <u>289,000</u> | <u>267,000</u> |
| | <u>3,469,882</u> | <u>3,167,735</u> |

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For the years ended June 30, 2013 and 2012, the collateral to guarantee loans to related parties amounted B/.66,060,666 and B/.64,939,640, respectively.

At June 30, 2013 and 2012, there are no loans with indicator of impairment. Loans to related parties have maturities from July 2017 to July 2043 and interest rates ranging from 6% to 12% as of June 30, 2013, and maturities between July 2012 to November 2041 and interest rates ranging from 4% to 12% as of June 30, 2012.

8. Cash and cash items

Cash and cash items are detailed below:

| | 2013 | 2012 |
|--|--------------------|--------------------|
| Cash | 34,224,420 | 37,474,158 |
| Demand deposits | 74,587,373 | 48,393,823 |
| Time deposits | <u>379,528,270</u> | <u>288,659,936</u> |
| | 488,340,063 | 374,527,917 |
| Less: | | |
| Restricted time deposits | 4,503,333 | 20,500,000 |
| Term deposits with maturities over 90 days | <u>10,379,000</u> | <u>21,273,000</u> |
| Cash equivalents for cash flows purposes | <u>473,457,730</u> | <u>332,754,917</u> |

At December 31, 2013 and 2012, there were time deposits with original maturity over 90 days for B/.2,733,000 and B/.10,379,000, respectively. In addition, there are restricted deposits for B/.11,800,000 and B/.4,503,333 to guarantee borrowed funds as of June 30, 2013 and 2012, respectively. See Note 14.

9. Securities purchased under resale agreements

Securities purchased under resale agreement for B/.5,497,680 and B/.1,044,500 as of June 30, 2013 and 2012, respectively, are secured by shares of companies and domestic private debt instruments listed in the stock exchange with maturities between in July and September 2013, January, February and April 2014.

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10. Securities available-for-sale

Securities available-for-sale are comprised by the following types of investments:

| | 2013 | 2012 |
|---|--------------------|--------------------|
| <u>Listed securities:</u> | | |
| Capital shared issued by companies - domestic | 12,753,816 | 10,878,126 |
| Capital shared issued by companies - foreign | 1,916,800 | 5,383,456 |
| Private debt securities - local | 69,606,422 | 825,000 |
| Private debt securities - foreign | 173,952,375 | 113,800,564 |
| Government debt securities - domestic | <u>5,134,373</u> | - |
| | <u>263,363,786</u> | <u>130,887,146</u> |

Unlisted securities:

| | | |
|---|--------------------|--------------------|
| Capital shared issued by companies - domestic | 2,408,802 | 2,346,252 |
| Capital shared issued by companies - foreign | - | 50,000 |
| Private debt securities - domestic | <u>5,820,941</u> | <u>1,437,694</u> |
| | <u>8,229,743</u> | <u>3,833,946</u> |
| | <u>271,593,529</u> | <u>134,721,092</u> |

The movement of securities available-for-sale is summarized as follows:

| | 2013 | 2012 |
|---|----------------------|---------------------|
| Balance at beginning of year | 134,721,092 | 136,000,493 |
| Additions | 50,172,840 | 50,884,832 |
| Net realized gain transferred to income | 26,495,473 | 3,438,856 |
| Change in fair value, net | (15,341,185) | (5,097,648) |
| Reclassification | 282,414,785 | - |
| Sales and redemptions | <u>(206,869,476)</u> | <u>(50,505,441)</u> |
| Balance at end of the year | <u>271,593,529</u> | <u>134,721,092</u> |

At June 30, 2013 and 2012, the net loss on embedded derivatives in available for sale securities is B/.2,228,807 and B/.89,926, respectively.

At June 30, 2013 and 2012, there are investments available-for-sale for B/.79,803,508 and B/.91,667,674, respectively, to guarantee borrowed funds. (See Note 16).

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On the December 27, 2012, the Bank notified to the Superintendency of Banks of Panama, its decision to reclassify the entire portfolio of securities held to maturity category to the available for sale securities based on its strategy or business model. These reclassification of B/.282,414,785 was effective date December 31, 2012. At the date of the reclassification was recorded unrealized gain of B/.30,633,474 in other comprehensive income as result of fair value recognition.

As June 30, 2013 and 2012, the sales and redemptions of investments was B/.206,869,476 and B/.50,505,441, respectively, as result recorded a gain of B/.26,495,473 and B/.3,438,856, which is included in the consolidated statement of profit or losses as of June 30, 2013 and 2012, respectively.

At June 30, 2013 the amortized cost of securities held to maturity, reclassified to the securities available for sale securities is B/.167,315,313.

11. Securities held to maturity

Securities held to maturity, recorded at their amortized cost are summarized as follows:

| | 2013 | | 2012 | |
|---------------------------------------|-----------------------|-------------------|-----------------------|--------------------|
| | <u>Carrying value</u> | <u>Fair value</u> | <u>Carrying value</u> | <u>Fair value</u> |
| <u>Listed securities</u> | | | | |
| Private debt securities - domestic | - | - | 25,842,500 | 25,958,500 |
| Private debt securities - foreign | - | - | 191,586,857 | 194,390,671 |
| Government debt securities - domestic | <u>-</u> | <u>-</u> | <u>46,881,335</u> | <u>60,529,447</u> |
| | <u>-</u> | <u>-</u> | <u>264,310,692</u> | <u>280,878,618</u> |

Movements of securities held to maturity are summarized below:

| | 2013 | 2012 |
|---|--------------------|---------------------|
| Balance at beginning of year | 264,310,692 | 252,900,254 |
| Additions | 25,095,502 | 33,090,169 |
| Reclasificaton of available for sale securities | (282,414,785) | - |
| Redemptions | <u>(6,991,409)</u> | <u>(21,679,731)</u> |
| Balance at end of year | <u>-</u> | <u>264,310,692</u> |

As indicated in Note 10 for the year ended June 30, 2013, securities held to maturity by B/.282,414,785, were reclassified to the category of available for sale securities.

Annual interest rates earned on securities held to maturity at June 30, 2012 ranged between 2.00% and 9.75% for both periods, respectively.

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12. Loans

Loans per type are as follows:

| | 2013 | | 2012 | |
|---|---------------------|-------------------|---|-------------------|
| | <u>Gross amount</u> | <u>Net amount</u> | <u>Gross amount</u> | <u>Net amount</u> |
| <i>Domestic:</i> | | | | |
| Domestic: | 510,341,532 | 505,724,183 | 444,536,254 | 438,273,717 |
| Consumer | 655,372,043 | 651,907,040 | 598,554,383 | 594,278,781 |
| Commercial | 234,570,187 | 231,498,859 | 237,419,959 | 234,339,849 |
| Agricultural | 110,145,201 | 110,145,201 | 100,013,386 | 100,013,386 |
| Pledged | 94,524,861 | 94,454,476 | 77,429,470 | 77,319,709 |
| Overdrafts | 419,418,065 | 419,128,411 | 339,506,195 | 339,117,849 |
| Mortgage | 130,992,015 | 130,992,015 | 83,266,266 | 83,266,266 |
| Industrials | 343,438,496 | 342,993,390 | 253,972,127 | 253,936,678 |
| Construction | 43,351,230 | 43,344,463 | 43,502,010 | 43,397,840 |
| Leasing | 205,294,260 | 204,526,184 | 216,017,971 | 215,208,598 |
| Factoring | 2,747,447,890 | 2,734,714,222 | Total domestic | 2,394,218,021 |
| Total domestic | | | | 2,379,152,673 |
| <i>Foreign:</i> | | | | |
| Foreign: | 105,744,621 | 105,744,621 | 65,865,462 | 65,865,462 |
| Commercial | 8,759,078 | 8,759,078 | 7,467,769 | 7,467,769 |
| Agricultural | 48,013,095 | 48,013,094 | 41,189,613 | 41,189,613 |
| Industrials | 15,732,615 | 15,732,615 | 2,473,894 | 2,473,894 |
| Construction | 27,750,068 | 27,750,068 | 10,404,981 | 10,404,981 |
| Pledged | 7,364,697 | 7,364,697 | 5,577,135 | 5,577,135 |
| Overdrafts | 213,364,174 | 213,364,173 | Total foreign | 132,978,854 |
| Total foreign | 2,960,812,064 | 2,948,078,395 | | 132,978,854 |
| Less: | | | | |
| Less: | | | | |
| Global allowance | | (14,755,773) | Global allowance | (8,441,832) |
| Global allowance | | (14,219,058) | Generic allowance | (15,489,046) |
| Generic allowance | | (16,335,857) | Unearned interest and discounted commisions | (12,838,411) |
| Unearned interest and discounted commisions | | | | |
| | | 2,902,767,707 | Total loans, net | 2,475,362,238 |
| Total loans, net | | | | |

At June 30, 2013 and 2012, the principal balance of loans delinquent (from 31 to 90 days) was B/.21,866,206 and B/.21,212,015, respectively and past due loans (more than 90 days) amounted to B/.23,248,659 and B/.19,302,247, respectively.

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At June 30, 2013 and 2012, there were restructured loans for B/.16,860,459 and B/.13,827,035, respectively and non-accrual loans at June 30, 2013 and 2012 for B/.17,156,804 and B/.12,249,230, respectively. At June 30, 2013 and 2012, gross income from interest that would have been recognized had the loans in non-accrual had performed under its original terms, would be B/.1,466,161 and B/.1,702,595, respectively.

The bond issued in October 2012, is guaranteed by an Irrevocable Guarantee Trust composed by residential mortgage loans pledged as collateral whose balance at June 30, 2013 amounted to B/.296,215,461.

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

| | 2013 | 2012 |
|-------------------------------|--------------------|--------------------|
| Balance at beginning of year | 38,996,226 | 31,123,067 |
| Provision charged to expenses | 8,499,996 | 15,575,000 |
| Recoveries | 997,854 | 928,484 |
| Written-off loans | <u>(6,785,576)</u> | <u>(8,630,325)</u> |
| Balance at end of year | <u>41,708,500</u> | <u>38,996,226</u> |

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13. Property, furniture, equipment and improvements

Property, furniture, equipment and improvement are summarized as follows:

| | 2013 | | | | | | | |
|--------------------------------------|------------------|-------------------|--------------------------------|---------------------------|------------------|-------------------------------|----------------------------|-------------------|
| | <u>Land</u> | <u>Property</u> | <u>Furniture and equipment</u> | <u>Computer equipment</u> | <u>Vehicles</u> | <u>Leasehold improvements</u> | <u>Process in projects</u> | <u>Total</u> |
| Cost: | | | | | | | | |
| At beginning of year | 1,517,140 | 29,215,346 | 12,230,440 | 25,994,300 | 2,436,216 | 5,056,411 | 923,776 | 77,373,629 |
| Additions or purchase | 2,377,928 | 870,423 | 1,175,658 | 3,188,407 | 550,614 | 569,340 | 4,923,161 | 13,655,531 |
| Sales and discharges | - | (431,876) | (727,994) | (319,936) | (372,166) | (497,887) | - | (2,349,859) |
| At end of year | <u>3,895,068</u> | <u>29,653,893</u> | <u>12,678,104</u> | <u>28,862,771</u> | <u>2,614,664</u> | <u>5,127,864</u> | <u>5,846,937</u> | <u>88,679,301</u> |
| Depreciation and amortization | | | | | | | | |
| At beginning of year | - | 6,280,833 | 7,574,856 | 18,899,580 | 1,195,794 | 1,801,132 | - | 35,752,195 |
| Expense of the year | - | 1,086,649 | 1,098,322 | 2,953,678 | 510,990 | 319,283 | - | 5,968,922 |
| Sales and discharges | - | (401,464) | (468,476) | (203,745) | (330,293) | (374,135) | - | (1,778,113) |
| At end of year | <u>-</u> | <u>6,966,018</u> | <u>8,204,702</u> | <u>21,649,513</u> | <u>1,376,491</u> | <u>1,746,280</u> | <u>-</u> | <u>39,943,004</u> |
| Net balances | <u>3,895,068</u> | <u>22,687,875</u> | <u>4,473,402</u> | <u>7,213,258</u> | <u>1,238,173</u> | <u>3,381,584</u> | <u>5,846,937</u> | <u>48,736,297</u> |
| | | | | | | | | |
| | 2012 | | | | | | | |
| | <u>Land</u> | <u>Property</u> | <u>Furniture and equipment</u> | <u>Computer equipment</u> | <u>Vehicles</u> | <u>Leasehold improvements</u> | <u>Process in projects</u> | <u>Total</u> |
| Cost: | | | | | | | | |
| At beginning of year | 1,517,140 | 25,870,618 | 11,701,047 | 22,997,361 | 2,109,983 | 4,298,440 | 1,161,031 | 69,655,620 |
| Additions or purchase | - | 3,344,728 | 692,267 | 3,136,849 | 651,489 | 757,971 | 7,098,311 | 15,681,615 |
| Transfers | - | - | - | - | - | - | (7,335,566) | (7,335,566) |
| Sales and discharges | - | - | (162,874) | (139,910) | (325,256) | - | - | (628,040) |
| At end of year | <u>1,517,140</u> | <u>29,215,346</u> | <u>12,230,440</u> | <u>25,994,300</u> | <u>2,436,216</u> | <u>5,056,411</u> | <u>923,776</u> | <u>77,373,629</u> |
| Depreciation and amortization | | | | | | | | |
| At beginning of year | - | 5,256,118 | 6,731,891 | 16,440,492 | 1,052,562 | 1,491,954 | - | 30,973,017 |
| Expense of the year | - | 1,024,715 | 1,044,923 | 2,522,900 | 455,402 | 309,178 | - | 5,357,118 |
| Reclassifications | - | - | - | - | - | - | - | - |
| Sales and discharges | - | - | (201,958) | (63,812) | (312,170) | - | - | (577,940) |
| At end of year | <u>-</u> | <u>6,280,833</u> | <u>7,574,856</u> | <u>18,899,580</u> | <u>1,195,794</u> | <u>1,801,132</u> | <u>-</u> | <u>35,752,195</u> |
| Net balances | <u>1,517,140</u> | <u>22,934,513</u> | <u>4,655,584</u> | <u>7,094,720</u> | <u>1,240,422</u> | <u>3,255,279</u> | <u>923,776</u> | <u>41,621,434</u> |

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements For the years ended June 30, 2013 and 2012 (In balboas)

14. Other assets

Other assets are summarized as follows:

| | 2013 | 2012 |
|---------------------------------------|-------------------|-------------------|
| Foreclosed assets | 53,222 | 178,829 |
| Accounts receivable | 26,137,445 | 26,520,417 |
| Tax credit - agricultural subsidy | 2,499,483 | 2,829,065 |
| Guarantee deposits | 3,948,843 | 3,662,302 |
| Seniority premium and severance funds | 2,368,498 | 2,594,323 |
| Prepaid expenses | 7,620,614 | 3,516,351 |
| Suspense accounts | 2,069,208 | 1,542,533 |
| Insurance premium receivables | 1,887,069 | 1,836,838 |
| Claims to insurance companies | 772,013 | 694,406 |
| Others | <u>28,793</u> | <u>90,555</u> |
| | <u>47,385,188</u> | <u>43,465,619</u> |

At June 30, 2013 and 2012, accounts receivable included B/.3,066,000, arisen from the subrogation of the obligation contracted by a debtor with another credit entity. Additionally, there are tax credit of B/.9,734,595 and B/.7,462.446, as of June 30, 2013 and 2012, respectively.

As of June 30, 2013 and 2012, the prepaid expense included prepaid income taxes paid of B/.6,271,583 and B/.1,815,152, respectively.

15. Securities sold under repurchase agreements

At June 30, 2012, securities sold under repurchase agreements for B/.29,915,818 are secured by investments with maturity on August 2012, and interest rates of 1.15%. These obligations were properly secured by available for sale securities.

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements For the years ended June 30, 2013 and 2012 (In balboas)

16. Borrowed funds

Borrowed funds were summarized as follows:

| | 2013 | 2012 |
|---|--------------------|--------------------|
| Obligations with other banks for the financing of foreign trade, with differents maturities until November 2014 at an annual interest rate from 0.6338% to 2.9440% (2012: 0.8662% and 3.0279%) | 93,038,640 | 84,584,952 |
| Obligations with financial institutions for short - term liquidity, with renewable maturities from June 2014, and interest rate 1.9963% bi-annual reviewed (2012: 1.34285% and 2.7505%) | 50,000,000 | 169,600,228 |
| Obligations with international organizations for long term liquidity, with renewable maturities between March 2016 and May, 2020 and interest rate from 3.5100% to 5.1300% (2012: 2.52833% and 5.13000%) | 53,392,857 | 63,303,571 |
| Stimulus program with govenmental financial institutions with period of 5 years and final maturities in March 2016 and interest rate from 3.41476% to 3.4990% (2012: 3.7344% and 3.80675%). | 60,032,156 | 75,000,000 |
| Obligations with foreign banks for working capital, with several maturities at December 2013 and annual interest rate between 2.00926% and 2.252341% (2012: 2.24525% and 2.7369%). | 9,006,796 | 15,000,000 |
| Obligations with multilateral financial institutions with a period of five years, redeemable from year 2, and final maturities in February 2014 and May 2018, and interest rate of 2.9449% and 4.3209% (2012: 3.2368% and 3.9200%). | 24,642,857 | 29,285,714 |
| | <u>290,113,306</u> | <u>436,774,465</u> |

At June 30, 2013 and 2012 available for sale securities of B/.79,803,508 and B/.91,667,674, respectively, guarantee these borrowings. See Note 10. Besides, there are restricted deposits for B/.4,503,333 and B/.20,500,000, as of June 30, 2013 and 2012, respectively. See Note 8.

Global Bank Corporation and Subsidiaries

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17. Commercial papers

According to Resolution No. 253-06 of October 26, 2006 of the Superintendency of Securities Exchange of the Panama, Global Bank Corporation was authorized to offer through Public Offer, negotiable commercial securities (called as Commercial papers in Panama) for a nominal value up to B/.100,000,000 and maturity up to one year from the issuance date. The commercial papers shall be issued in a global, revolving and registered, no coupons, in denominations of B/.1,000 or its multiples, and in several series as necessary according to its cash needs and market demand. Commercial papers shall earn a fixed annual interest rate that will depend on the term of the papers and shall be determined at the time of bid offer. Interest shall be paid monthly. Commercial papers may not be prepaid by the Issuer. These commercial papers are secured by Global Bank Corporation's general credit.

The commercial papers are summarized as follows:

| <u>Series</u> | <u>Issuance date</u> | <u>Interest rate</u> | <u>Maturities</u> | <u>2013</u> |
|---------------|----------------------|----------------------|-------------------|-------------------|
| B-C | January 16, 2013 | 3.00% | January 14 | 5,000,000 |
| B-D | March 4, 2013 | 3.00% | February 14 | 7,050,000 |
| B-E | April 11, 2013 | 3.00% | April 14 | 4,965,000 |
| B-F | May 31, 2013 | 3.00% | May-14 | 3,770,000 |
| B-G | June 17, 2013 | 3.00% | June 14 | 3,598,000 |
| A-X | July 9, 2012 | 3.25% | July 13 | 9,994,000 |
| A-Y | August 13, 2012 | 3.25% | August 13 | 5,000,000 |
| A-Z | September 6, 2012 | 3.25% | September 13 | 10,000,000 |
| B-A | November 15, 2012 | 3.00% | November 13 | 7,560,000 |
| B-B | December 10, 2012 | 3.00% | December 13 | 2,137,000 |
| | | | | <u>59,074,000</u> |

| <u>Series</u> | <u>Issuance date</u> | <u>Interest rate</u> | <u>Maturities</u> | <u>2012</u> |
|---------------|----------------------|----------------------|-------------------|-------------------|
| A-N | July 11, 2011 | 3.00% | July 12 | 9,991,000 |
| A-O | August 19, 2011 | 3.00% | August 12 | 10,000,000 |
| A-P | September 12, 2011 | 3.00% | September 12 | 9,951,000 |
| A-Q | November 21, 2011 | 3.00% | November 12 | 10,000,000 |
| A-R | December 15, 2011 | 3.00% | December 12 | 5,000,000 |
| A-S | January 13, 2012 | 3.00% | January 13 | 9,910,000 |
| A-T | March 8, 2012 | 3.25% | March 13 | 10,000,000 |
| A-U | April 9, 2012 | 3.25% | April 13 | 5,000,000 |
| A-V | June 5, 2012 | 3.25% | May-13 | 8,775,000 |
| A-W | June 21, 2012 | 3.25% | June 13 | 6,713,000 |
| | | | | <u>85,340,000</u> |

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18. Corporate bonds payable

Corporate bonds payable are summarized as follows:

| <u>Type</u> | <u>Interest rate</u> | <u>Maturity</u> | <u>2013</u> | <u>2012</u> |
|-------------------------------------|----------------------|-----------------|--------------------|--------------------|
| Series B - Issuance of October 2008 | 6.000% | mar-14 | 3,000,000 | 3,000,000 |
| Series C - Issuance of October 2008 | 5.500% | jun-15 | 10,000,000 | 10,000,000 |
| Series D - Issuance of October 2008 | 5.250% | feb-18 | 17,500,000 | 17,500,000 |
| Series E - Issuance of October 2008 | 5.250% | feb-18 | 14,500,000 | 14,500,000 |
| Series A - Issuance of May 2011 | 5.500% | feb-19 | 50,000,000 | 50,000,000 |
| Series B - Issuance of May 2011 | 5.250% | feb-18 | 20,000,000 | 20,000,000 |
| Series C - Issuance of May 2011 | 4.750% | may-17 | 10,000,000 | 6,342,000 |
| Series D - Issuance of May 2011 | 4.750% | feb-18 | 10,439,000 | - |
| Series A - Issuance of October 2012 | 4.750% | oct-17 | <u>189,664,129</u> | <u>-</u> |
| | | | <u>325,103,129</u> | <u>121,342,000</u> |

The guarantees granted by Global Bank Corporation for these issuances are described as follows:

Issuance of October 2008 - Bond issuance of October 2008, the Bonds will be secured by the general credit of Global Bank Corporation (the Issuer). The bonds will be issued in series, which amounts, terms and annual interest rates will be determined by the cash needs of the Issuer and the market demand. The bonds may be issued with maturities from three (3) to seven (7) years from the issuance date (the "Issuance Date") of the corresponding bonds. The annual interest rate for each of the series may be fixed or variable at the option of the Issuer. In the case of the fixed rate, the bonds will bear an annual interest rate to be determined by the Issuer according to the market demand, at least five (5) working days prior to the issuance of each series. In the case of the variable rate, the bonds will bear an annual interest rate equivalent to one-month Libor rate "Libor (1)", plus an spread that will be determined by the Issuer according to market demand, at least five (5) working days prior to the issuance of each series. The variable interest rate may be subject, at the option of the Issuer, to a range of minimum and maximum rates for each of the respective series.

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Issuance of May 2011 - Bonds of this issue are general obligations of the Issuer, unsecured and no special privileges in terms of priority, and are backed only by the general credit of the Issuer. The bonds will be issued in series, which amounts, term, annual interest rate, maturity and first redemption date (if any) will be determined by the cash needs of the Issuer and market demand. The bonds may be offered in the primary market for 100% of its nominal value, or worth more or less than their face value, according to financial market conditions at that time. Each series of the bonds will accrue annual interest rate fixed or variable, at the option of the Issuer, which will be given no less than 5 working days prior to the issuance of each series and the Issuer shall notify the Superintendency of Securities Exchange of Panama not less than 3 business days prior to the issuance of each series with a supplement to this Prospectus. In addition, the Issuer will determine the amount of each series, the term placement price, maturity and first redemption date (if any), no less than 5 working days prior to the issuance of each series and shall notify the Superintendent of Panama Stock Exchange not less than 3 business days prior to the issuance of each series with a supplement to this Prospectus. Accrued interest on the bonds of each series shall be payable in each year on a monthly, quarterly, semi-annually, at the option of the Issuer, until the date of maturity or early redemption date (if any) of the respective bond series. For each series of the issue will be a single payment to capital at the date of maturity of each series or until early redemption. Each series of the bonds will be issued with maturity as determined by the Issuer, which will be counted from the date of issuance of each series of the bonds. The bonds may be redeemed by the Issuer, in its discretion, partially or totally, from the date fixed by the Issuer for each series, which may not be less than 2 years from the respective issuance date.

Issuance of October 2012 - Bond issue in October 2012, is guaranteed by a Guarantee Trust Irrevocable composed by residential mortgage loans granted in the Republic of Panama. Such collateral credits includes any amount of principal, interest, costs, charges, expenses relating to such credits, including insurance policies that guarantee any payment for compensation related to such credits. Also, as guarantee of repayment, the tax credits arising from the preferential mortgage portfolio. The bonds will be issued in series with maturities of five years, which amount; annual interest rate will be determined by the cash needs of the Issuer and market demand. The bonds may be offered in the primary market for 100% of its nominal value, or a higher or less than their nominal value, according to financial market conditions at that time. Global Bank Corporation may issue up to \$ 500 million under the structure of these residential mortgage-secured bonds. Because there is no guarantee bonds law in Panama, Global Bank issued these bonds by transferring the mortgage portfolio to an irrevocable trust with a third party warranty. The issuer of these bonds will always be responsible to pay the bonds at maturity.

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements For the years ended June 30, 2013 and 2012 (In balboas)

During the year 2013, the Bank entered into an interest rate swap on these bonds that qualified as fair value hedge. At June 30, 2013, the gains on the hedged item attributable to the hedged risk were B/.3,887,121 (See Notes 21 y 22).

19. Convertible bonds

Global Bank Corporation was authorized by Resolution No.172-09 dated June 5, 2009 of the Superintendency of Security Exchange of Panama, through Public Offering, Subordinated convertible bonds into Common Shares at a nominal value of B/.10,000,000, whose terms and conditions were amended by Resolution No. 390-09 of December 18, 2009. The bonds will be issued in series, and their amounts and annual interest rates will be determined according to the needs of the Issuer and market demand. The bonds will be issued with a maturity of (5) years from the issuance date. The annual interest rate for each series may be fixed or variable at the option of the Issuer. For each series, interest will be payable monthly, until their expiration date or conversion date. For each series, at its expiration date or date of convertibility, the nominal value of each bond will be paid by converting that amount into conversion common shares of Global Bank Corporation, based at a fixed price per share of Global Bank Corporation to be determined for each series of bonds, prior to the issuance of the respective series through a supplement to the prospectus information. The bonds will be subordinated to depositors and creditors in general of the Issuer. The bonds will not be acceptable as guarantee of credit facilities with the Issuer, according to provisions imposed by the Superintendency of Banks of Panama. The bonds will be supported by the general credit of Global Bank Corporation.

In case one or more events of default occurred, continue and have not been corrected, registered holders representing twenty-five percent (25%) or more of the total nominal value of bonds issued and outstanding may:

- Issue an overdue statement (the “past due statement”), which shall be notified in writing to the Issuer, the Paying Agent, Register and Transfer and Registered Holders, which are declared by all bonds overdue issue and require immediate payment to the issuer of principal and interest thereon and on which date each and every one of the bonds will be an overdue obligation without any person from complying with any other act, notification or requirement without need for prior judicial resolution.
- Require the issuer to make a special contribution of cash to the Paying Agent, Register and Transfer for the amount necessary to cover the principal of the bonds issued and outstanding, interest earned, whether or regular and delinquent all and any expenses, fees or other amounts owed by the issuer to the registered holders of the bonds.

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Notes to the consolidated financial statements For the years ended June 30, 2013 and 2012 (In balboas)

At June 30, 2013 and 2012, there were convertible bonds issued for a total of B/.10,000,000.

20. Subordinated bonds

Global Bank Corporation was authorized by Resolution No. 324-10 of August 26, 2010 by the Superintendency of Security Exchange of Panama to offer through public offering non-cumulative subordinated bonds of Global Bank Corporation for a total nominal value of B/.150,000,000, issued in registered form and registered, at no coupons. The bonds will be issued in denominations of B/.1,000 or its multiples. The bonds will be issued in series, whose amount, term and annual interest rates will be determined by the Issuer's cash needs and market demand. The bonds may be offered in the primary market for 100% of their nominal value or a value above or below face value, according to financial market conditions at that time. The annual interest rate for each of series may be fixed or variable at option of the Issuer. In case of fixed rate bonds bear an annual interest rate that will be determined by the Issuer according to market demand. In case of variable rate bonds bear an annual interest rate equivalent to one month LIBOR plus a spread that will be determined by the Issuer according to market demand. The variable interest rate may be subject, at the option of the Issuer at a rate range with minimum and maximum amount for each of the respective series. The variable rate will be reviewed and determined monthly, as described in Section III (A) (6) of the Informative Prospectus. The Issuer will determine the amount of each series, the term placement price, interest rate and early redemption date, not less than 5 working days prior to the issuance of each series and notify the Superintendency of Security Markets of Panama at least 3 business days prior to the issuance of each series with a supplement to the Informative Prospectus. Accrued interest on bonds of each series will be payable on 30 days until the maturity date of early redemption date, earliest date. For each series of the issue will be a single capital payment on the due date of each series or until early redemption. The bonds will be issued with a maturity of up to 60 years, at the option of the Issuer, from the issuance date. The bonds may be redeemed by the Issuer, at its discretion, in whole or in part, from the date determined by the Issuer for each series, which may not be less than 3 years from their related issuance date. The bonds may be redeemed prior to the 3 years for regulatory events occurring beyond the control of the Issuer. The bonds of this issue are general obligations of the Issuer, subordinated, unsecured and without special privileges as to priority, and are only supported by the general credit of the Issuer.

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Notes to the consolidated financial statements For the years ended June 30, 2013 and 2012 (In balboas)

| <u>Type</u> | <u>Interest rate</u> | <u>Maturity</u> | <u>2013</u> | <u>2012</u> |
|--------------------------------------|----------------------|-----------------|-------------------|-------------------|
| Series A - Issuance of August 2010 | 6.75% | ago-70 | 15,020,000 | 15,020,000 |
| Series B - Issuance of November 2010 | 6.75% | ago-70 | 30,000,000 | 30,000,000 |
| Series C - Issuance of December 2010 | 6.75% | ago-70 | 40,000,000 | 40,000,000 |
| Series D - Issuance of May 2011 | 6.75% | ago-70 | <u>5,000,000</u> | <u>5,000,000</u> |
| | | | <u>90,020,000</u> | <u>90,020,000</u> |

21. Derivative Financial Instruments

In order to reduce its exposure risk, the counterparties of these agreements are solid and well known financial institutions. Such agreements are recorded at fair value in the consolidated statement of financial position based on the fair value hedge or cash flows hedged method, in other assets or other liabilities, as applicable.

Cash flows hedge

The Bank made an interest rate swap to hedge variable-rate debt at a par value of B/.10,000,000 redeemable. This derivative is designated as a cash flow hedge in order to protect variables cash flows related to liability. The instrument "swap" makes the net amount receive payments between interest rate and pay a fixed rate for each payment period, which began in May 2011 and end in March 2016. Payments of "swap" interest rate and payment of interest on the debt, which are made quarterly, occur simultaneously. The variable "swap" rate is Libor 3 plus a spread of 2%, which at the date of these consolidated financial statements maintains a market level of 0.27310% and 0.46060%, as of June 30, 2013 and 2012, respectively.

Fair value hedge

In order to manage its position in the consolidated statement of financial position, the Bank entered into an interest rate swap to swap the corporate bonds of B/.200,000,000 from fixed rate to variable rate.

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A summary of derivative contracts based on maturities and accounting method follows:

| <u>Accounting method</u> | Remaining maturity | | Total |
|--------------------------|-----------------------------|----------------------|--------------------|
| | More than 1 year | nominal value | |
| Cash flows | | 10,000,000 | 10,000,000 |
| Fair value | | 200,000,000 | 200,000,000 |
| Total | | <u>210,000,000</u> | <u>210,000,000</u> |

| <u>Accounting method</u> | Remaining maturity | | Total |
|--------------------------|-----------------------------|----------------------|-------------------|
| | More than 1 year | nominal value | |
| Cash flows | | 10,000,000 | 10,000,000 |
| Total | | <u>10,000,000</u> | <u>10,000,000</u> |

The changes in the fair value of the financial instruments of B/.63,090 and B/.163,906, as of June 30, 2013 and 2012, respectively, are recognized in the consolidated statement of changes in shareholders equity.

The nominal value and estimated fair value of derivatives in interest rates at June 30, 2013 are presented in the table below. The fair value of derivative financial instruments is estimated using internal valuation models with observed market data.

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| <u>Type</u> | 2013 | | 2012 | |
|----------------------------------|----------------------|-------------------|----------------------|-------------------|
| | <u>Nominal value</u> | <u>Fair value</u> | <u>Nominal value</u> | <u>Fair value</u> |
| Derivatives for cash flow hedges | | | | |
| (for funding) | 10,000,000 | (100,816) | 10,000,000 | (163,906) |
| Total | <u>10,000,000</u> | <u>(100,816)</u> | <u>10,000,000</u> | <u>(163,906)</u> |

| <u>Type</u> | 2013 | | 2012 | |
|---|----------------------|--------------------|----------------------|-------------------|
| | <u>Nominal value</u> | <u>Fair value</u> | <u>Nominal value</u> | <u>Fair value</u> |
| Derivatives held for fair value hedging | | | | |
| (for funding) | 200,000,000 | (3,887,121) | - | - |
| Total | <u>200,000,000</u> | <u>(3,887,121)</u> | <u>-</u> | <u>-</u> |

For cash flow hedges, the effective portion of gains or losses resulting from changes in fair value of a hedging derivative instrument is included in other comprehensive income (loss) earnings. The ineffective portion (indicated by the excess of cumulative change in fair value of the derivative of the amount needed to offset the cumulative change in expected future cash flows of the hedging transactions) is included in other income (expense). During the period the hedge was effective in covering the risk of variability in interest rates that could affect the cash flows of the bank.

For the fair value hedge, the gains or loss of the changes of the hedging instrument as well as the hedged item attributable to the hedged risk are included in other income (expenses).

Global Bank Corporation and Subsidiaries

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22. Other liabilities

Details of other liabilities are shown as follows:

| | 2013 | 2012 |
|--|--------------------------|--------------------------|
| Others payable | 14,914,163 | 11,509,340 |
| Hedging derivatives | 3,887,121 | - |
| Insurance payable | 1,291,338 | 1,194,523 |
| Suspense accounts | 5,926,040 | 4,304,826 |
| Guarantee deposits - due to clients and others | 6,349,299 | 6,730,017 |
| Interest payable Compensations Special Fund (FECL) | 1,011,219 | 953,349 |
| Income tax payable | 2,666,642 | 4,627,467 |
| Employee benefits and other payroll taxes | 8,682,067 | 7,379,861 |
| Reserves for insurance operations | 3,423,187 | 2,718,685 |
| Other provisions | <u>1,816,124</u> | <u>1,685,490</u> |
| | <u>49,967,200</u> | <u>41,103,558</u> |

Retained guarantees payable clients consist of a percentage value of each discounted invoice, retained until collection is made effective. If at the end of the contract, the invoices become uncollectible, the Bank deduct the account receivable from the balance retained in the account of retained guarantees payable.

At June 30, 2013, the account of others payable included B/.5,533,637 relating to prepaid letter of credits. Additionally, there are accounts payable related to loans participation share of credits of B/.2,198,823.

23. Common shares

The issued and outstanding share capital of Global Bank Corporation is constituted by 2,000,000 common shares at no-par value, 100,000 shares are issued and outstanding for B/.78,202,657 and B/.78,202,657, as of June 30, 2013 and 2012, respectively. During the years ended June 30, 2013 and 2012, dividends paid of B/.9,330,040 and B/.6,387,712, respectively, were declared and paid.

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24. Commitments and contingencies

The Bank maintains financial instruments outside the consolidated statement of financial position with credit risks that arise in the normal course of business and which involve elements of credit and liquidity risk. Such financial instruments include commercial letters of credit, guarantees and endorsements granted, which are summarized as follows:

| | <u>2013</u> | <u>2012</u> |
|----------------------------|------------------------|------------------------|
| Letters of credits | 71,171,717 | 47,297,516 |
| Guarantees and endorsement | 355,157,749 | 309,813,656 |
| Promissory notes | 249,691,410 | 231,960,781 |
| Unused lines of credit | <u>79,628,306</u> | <u>8,818,770</u> |
| Total | <u>755,649,182</u> | <u>597,890,723</u> |

Commercial letters of credit, guarantees issued and loan commitments include exposure to some credit loss in the event of default by the customer. The Bank's credit policies and procedures to approve credit commitments and financial guarantees are the same as those for granting of loans that are recorded on the consolidated statement of financial position.

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

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

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25. Management of trust contracts and investment portfolio

The Bank maintained under its management, trust contracts at the risk of their clients that amounted to B/.621,342,987 and B/.309,976,669, as of June 30, 2013 and 2012, respectively.

An investment portfolio at the risk of their clients of B/.754,155,091 as of June 30, 2013 and B/.577,100,815, as of June 30, 2012, is managed under administration.

Considering the nature of these services, the Bank's management does not anticipate any losses for the Bank.

26. Income tax

The income tax returns of companies incorporated at the Republic of Panama are subject to examination by the tax authorities for the last three years, including the year ended June 30, 2012, according to current fiscal 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 securities issued through the Panama Stock Exchange.

The subsidiaries Global Capital Investment Corp. and Global Bank Overseas are not subject to income tax payment in their respective jurisdictions, due to the nature of their foreign operations; however, income tax on operations that generate taxable income in other jurisdictions is classified within the income tax expense.

In reference to Law No.8 of March 15, 2010 in Official Gazette No.26489-A, the general income tax rates (ISR) are amended. For financial institutions, the current rate is 27.5% since January 1, 2012, and subsequently, reduced to 25% from 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, forcing all individuals who earn income in excess of one million five hundred thousand dollars (B/.1,500,000), to determine the taxable amount of such tax, the amount greater of: (a) the net taxable income calculated by the standard method established in the Tax Code and (b) net taxable income resulting from the application of four point sixty-seven percent (4.67%) to total taxable income.

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Income tax expense is detailed as follows:

| | 2013 | 2012 |
|---|-------------------------|-------------------------|
| Current income tax | 9,468,338 | 6,838,446 |
| Deferred tax from temporary differences | <u>251,850</u> | <u>(2,361,948)</u> |
| Income tax, net | <u><u>9,720,188</u></u> | <u><u>4,476,498</u></u> |

As of June 30, 2013 and 2012, the effective average rate of the current income tax is 11.63% and 12.47%, respectively.

The effective tax item that consists of deferred tax assets included in the consolidated statement of financial position is the allowance for possible loans losses which is detailed below:

| | 2013 | 2012 |
|--|--------------------------|--------------------------|
| Balance at beginning of year | 11,799,949 | 9,438,001 |
| Deferred tax loss | (78,261) | - |
| Credit to profit or loss during the year | <u>(251,850)</u> | <u>2,361,948</u> |
| Balance at end of the year | <u><u>11,469,838</u></u> | <u><u>11,799,949</u></u> |

The deferred assets are recognized based on the deductible fiscal differences considering its past operations and the projected taxable income influenced by management's estimates. Based on actual and projected results, the Bank's management considers that there will be sufficient taxable income to absorb the deferred income taxes previously described.

Global Bank Corporation and Subsidiaries

Notes to the consolidated financial statements For the years ended June 30, 2013 and 2012 (In balboas)

A reconciliation of the current income tax is presented in the following manner:

| | <u>2013</u> | <u>2012</u> |
|--------------------------------|--------------------|--------------------|
| Net income before income tax | 81,414,707 | 54,828,146 |
| Less: Non taxable income | (71,531,134) | (55,610,640) |
| Plus: Non-deductible expenses | 24,121,890 | 25,129,685 |
| Plus: tax loss in subsidiaries | <u>36,521</u> | <u>17,672</u> |
| Tax base | <u>34,041,984</u> | <u>24,364,863</u> |
| Income tax calculated at 27.5% | 9,361,546 | 6,700,337 |
| Remittances tax | <u>106,792</u> | <u>138,109</u> |
| Current income tax expense | <u>9,468,338</u> | <u>6,838,446</u> |

On August 29, 2012, entered into force the Law No.52, reforming regulations on transfer pricing regime toward to regulate prices for tax purposes transactions between related parties, so that the considerations between them are similar to those which third parties. According to those rules taxpayers carrying out transactions with related parties that have an impact on revenues, costs or deductions in determining taxable income for purposes of income tax, the tax period in which declare or the operation takes place, must prepare an annual report on the operations performed within six months following the termination of the relevant tax period (Form 930). These transactions are subject to a review in order to verify that they meet the assumptions established ruled in the Act.

At the date of these consolidated financial statements, the Bank is in the process of contemplating such an analysis, but according to the Administration, it is not expected that will have significant impact on the estimated income tax for the period.

27. Approval of financial statement

These consolidated financial statements for the years ended June 30, 2013 and 2012 were approved for their issuance by General Management and authorized for issuance on July 23, 2013.

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5.125% Senior Notes due 2019

OFFERING MEMORANDUM

Citigroup

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Commerzbank

October 28, 2014
